

FEBRUARY 1997

LS-97-02

Dear Colleague:

This letter transmits the U.S. Department of Education's *Agreed-Upon Procedures Guide (Attestation Engagement) Exceptional Performance Status For Federal Family Education Loan Program (FFELP) At Participating Lenders and Lender Servicers*. The Higher Education Act of 1965, as amended, and Section 682.415 of Title 34 of the Code of Federal Regulations authorizes the Secretary to recognize lenders and lender servicers (as an agent for an eligible lender) for an exceptional level of performance in servicing Federal Family Education Loan Program (FFELP) loans.

A lender or lender servicer designated for exceptional performance can receive 100 percent reimbursement on all claims submitted for insurance during the 12-month period following the date the lender or lender servicer receives notification of the designation. The Secretary will notify the lender or lender servicer within 60 days of his receipt of a complete request for EP designation and all required information.

Engagement Period and Due Dates

To Receive Designation for Exceptional Performance

The agreed-upon procedures engagement conducted in accordance with the attached guide is to cover the 12 month period ending no more than 90 days prior to the date the lender or servicer submits its request for designation. The engagement period is to be specified by the lender or servicer.

After Receiving Designation for Exceptional Performance

See Engagement Period section on page I-2 of the enclosed Exceptional Performance Guide.

Submission Requirements

To receive a designation for "Exceptional Performance" lenders and lender servicers are required to submit specific items to the Secretary as set forth in 34 CFR § 682.415(a)(2). These items include a compliance audit of its loan portfolio, conducted by a qualified independent organization. Section III of the attached guide provides detailed guidance concerning the submission requirements for both the Practitioner, and the Lender or Lender Servicer. In

addition, copies of all required application information should be sent to each appropriate guaranty agency as set forth in 34 CFR § 682.415(a)(4).

Additional copies of this guide may be downloaded from the ED/OIG Non-Federal Audit Team Home Page at <http://home.gvi.net/~edoig> or by faxing requests to ED/OIG at 202-205-8238.

Questions pertaining to the Exceptional Performance Guide should be directed to the Regional Inspector General's office in Kansas City, Missouri. We would appreciate it if your questions could be faxed to that office at (816)891-0815. We look forward to working with you to implement the requirements of the new guide.

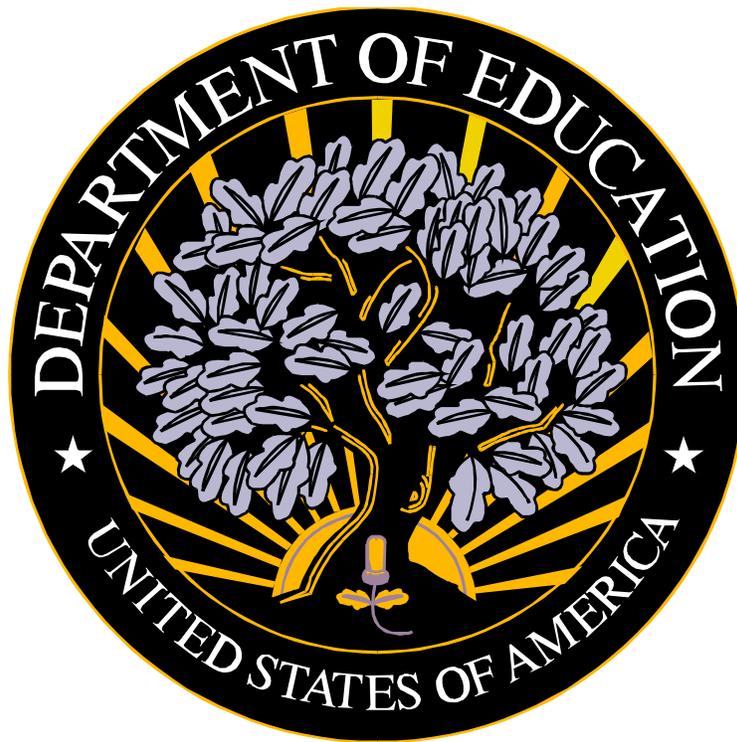
Sincerely,

Thomas R. Bloom

Enclosure

**AGREED-UPON PROCEDURES GUIDE
(ATTESTATION ENGAGEMENT)**

**EXCEPTIONAL PERFORMANCE STATUS FOR
FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFELP)
AT PARTICIPATING LENDERS AND LENDER SERVICERS**



**U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

FEBRUARY 1997

TABLE OF CONTENTS

SECTION I

PLANNING AND OTHER CONSIDERATIONS

| | |
|---|-----|
| AUTHORIZATION | I-1 |
| ATTESTATION REQUIREMENTS AND STANDARDS | I-1 |
| USE OF THIS GUIDE | I-2 |
| ENGAGEMENT PERIOD | I-2 |
| Prior to Receiving Designation as Exceptional Performer | I-2 |
| After Receiving Designation as Exceptional Performer | I-2 |
| REPORTING ENTITY | I-3 |
| PRACTITIONER QUALIFICATIONS | I-3 |
| ENGAGEMENT LETTER | I-4 |
| PLANNING CONSIDERATIONS | I-4 |
| Purpose and Objective | I-4 |
| Agreed-upon Procedures Engagement | I-4 |
| Management Assertions and Scope | I-5 |
| REPORTING CONSIDERATIONS | I-6 |
| Reporting Noncompliance | I-6 |
| Matters Requiring Immediate Action | I-6 |
| Report Submission | I-7 |
| QUALITY CONTROL REVIEWS | I-7 |
| Deficient Work | I-7 |
| Freedom of Information Act Considerations | I-7 |

SECTION II

AGREED-UPON PROCEDURES ENGAGEMENT

COMPLIANCE REQUIREMENTS, MANAGEMENT ASSERTION, AND AGREED-UPON PROCEDURES

| | |
|---|------|
| INTRODUCTION | II-1 |
| Special Loan Situations | II-1 |
| MANAGEMENT ASSERTION, STATISTICAL SAMPLE METHODOLOGY, & AGREED-UPON PROCEDURES | II-3 |
| Management Assertion | II-3 |
| Scope of Management's Assertion | II-3 |
| Statistical Sample Methodology | II-4 |
| 1. CONVERSION OF FFELP LOANS TO REPAYMENT | II-9 |

| | |
|---|-------|
| A. Consolidation Loans | II-9 |
| B. PLUS Loans | II-10 |
| C. SLS Loans | II-10 |
| D. Stafford Loans | II-11 |
| E. Transfer Totals | II-13 |
| | |
| 2. COLLECTION OF DELINQUENT LOANS | II-14 |
| 1986 Regulations | II-15 |
| A. Compliance Requirement - 1-30 Days Delinquent | II-16 |
| B. Compliance Requirement - 31-60 Days Delinquent | II-16 |
| C. Compliance Requirement - 61-150 Days Delinquent | II-17 |
| D. Compliance Requirement - 151-180 Days Delinquent | II-18 |
| E. Compliance Requirement - Skip Tracing | II-19 |
| F. Compliance Requirement - Preclaims Assistance | II-19 |
| 1992 Regulations | II-20 |
| G. Compliance Requirement - 1-10 Days Delinquent | II-21 |
| H. Compliance Requirement - 11-180 Days Delinquent | II-21 |
| I. Compliance Requirement - Delinquent 151 or Greater (Final Demand Letters) | II-23 |
| J. Compliance Requirement - Skip Tracing | II-23 |
| K. Compliance Requirement - Due Diligence for Loan Endorsers (PLUS Loans only) .. | II-24 |
| L. Compliance Requirement - Preclaims Assistance | II-26 |
| M. Transfer Totals | II-26 |
| | |
| 3. TIMELY CLAIM FILINGS WITH THE GUARANTY AGENCY | II-27 |
| A. Compliance Requirement - Filing Deadlines for Death, Disability, Closed School, False Certification or Bankruptcy | II-28 |
| B. Compliance Requirement - Filing Requirements for Default Claims | II-29 |
| C. Transfer Totals | II-29 |
| | |
| 4. CALCULATION OF PERFORMANCE COMPLIANCE PERCENTAGE | II-30 |

SECTION III

REPORTING

| | |
|---|-------|
| REPORTING PACKAGE | III-1 |
| Management Assertion | III-1 |
| Practitioner's Reporting Package | III-1 |
| LENDER/LENDER SERVICER SUBMISSION PACKAGE | III-2 |
| To Receive Designation | III-2 |
| Subsequent Quarterly Compliance Engagements | III-3 |
| Subsequent Annual Compliance Engagements | III-4 |

APPENDIXES

| | |
|--|------------------|
| APPENDIX A | |
| OIG TECHNICAL ASSISTANCE CONTACT POINT FOR GUIDE | A-1 |
| APPENDIX B (EXAMPLE REPORTS) | |
| ILLUSTRATIVE REPORT ON APPLYING AGREED-UPON PROCEDURES | B-1 |
| ILLUSTRATIVE REPRESENTATION LETTER TO PRACTITIONER INCLUDING MANAGEMENT ASSERTION ON COMPLIANCE | B-3 |
| ILLUSTRATIVE SCHEDULE OF FINDINGS | B-4 |
| ILLUSTRATIVE AUDITOR INFORMATION SHEET | B-5 |
| APPENDIX C | |
| DEFINITIONS | C-1 through C-4 |
| APPENDIX D | |
| DUE DILIGENCE REQUIREMENTS | D-1 |
| APPENDIX E | |
| EXAMPLE TABLES FOR SCHEDULING SAMPLED LOANS | E-1 through E-15 |
| APPENDIX F | |
| NOTIFICATION TO SUBMITTERS OF CONFIDENTIAL COMMERCIAL INFORMATION | F-1 |
| APPENDIX G | |
| SAMPLE SIZE SELECTION TABLES | G-1 |
| Table 1 - 5% Risk of Over Reliance (95% Confidence) | G-1 |
| Table 2 - 10% Risk of Over Reliance (90% Confidence) | G-2 |
| APPENDIX H | |
| SUMMARY TABLES/COMPUTATION OF PERFORMANCE COMPLIANCE PERCENTAGE | H-1 through H-14 |

SECTION I

PLANNING AND OTHER CONSIDERATIONS

AUTHORIZATION

The Higher Education Act of 1965 (HEA), as amended, authorizes the Secretary to recognize lenders and lender servicers (as an agent for an eligible lender) for an exceptional level of performance in servicing Federal Family Education Loan Program (FFELP) loans. A lender or lender servicer designated for Exceptional Performance (EP) can receive 100 percent reimbursement on all claims submitted for insurance during the 12-month period following the date the lender or lender servicer receives notification of the designation.

ATTESTATION REQUIREMENTS AND STANDARDS

To receive a designation for EP, a lender or lender servicer is required to submit specific items to the Secretary as set forth in 34 CFR § 682.415(a)(2). These items include submission of a compliance audit of its loan portfolio, conducted by a qualified independent organization. The audit organizations must meet the qualification and independence standards contained in the U.S. General Accounting Office's (GAO) *Government Auditing Standards*, issued by the Comptroller General of the United States. The regulations implementing the audit requirement specify that the sampling and evaluation techniques are to be identified in an audit guide prepared by the U.S. Department of Education's Office of Inspector General.

To satisfy the audit requirement, this guide requires an agreed-upon procedures level attestation engagement. This engagement requires the practitioner to perform certain procedures and report his/her results. Management's assertion will be that it (the lender or lender servicer) maintained an overall compliance performance percentage of 97 percent or higher pertaining to due diligence requirements applicable to each loan, on average, during the engagement period, with respect to:

- ▶ converting FFELP loans to repayment,
- ▶ collecting delinquent loans, and
- ▶ filing timely claims with the guaranty agency.

In addition to applicable standards contained in *Government Auditing Standards*, the standards contained in *Statement on Standards for Attestation Engagements (SSAE) No.3, Compliance Attestation and No. 4, Agreed-Upon Procedures Engagements* issued by the American Institute of Certified Public Accountants (AICPA) apply.

USE OF THIS GUIDE

This guide is to be used by the practitioner to perform agreed-upon procedures relative to management's assertion about its compliance performance percentage with respect to converting loans to repayment, collecting delinquent loans, and timely claim filing requirements relating to the FFELP. This guide is divided into three sections. Section I provides general information about engagement requirements. Among other things, it provides guidance on the engagement period and due dates; the reporting entity; practitioner qualifications; engagement letters; planning and reporting considerations; and quality control reviews. Section II provides guidance on the requirements for "Agreed-upon Procedures" engagements including the required management assertions and the agreed-upon procedures to be performed. Section III contains the reporting requirements and illustrative reports.

This guide is intended to set forth the required agreed-upon procedures. All of the agreed-upon procedures related to the applicable management assertions contained in this guide must be performed by the practitioner. Technical assistance related to these engagements is available from the U.S. Department of Education (ED) Regional Inspector General for Audit in Kansas City. (See Appendix A).

ENGAGEMENT PERIOD

Prior To Receiving Designation as Exceptional Performer

The agreed-upon procedures engagement conducted in accordance with this guide is to cover the 12-month period ending no more than 90 days prior to the date the lender or lender servicer submits its request for designation. The engagement period is to be specified by the lender or lender servicer.

After Receiving Designation as Exceptional Performer

The agreed-upon procedures engagements conducted in accordance with this guide are to be performed on a quarterly basis. The first engagement is to cover the 3-month period starting the day after the end of the 12-month period for which the lender or lender servicer received its EP designation. The quarterly engagement is due within 90 days of the end of the quarter.

(NOTE: If designation is received after the end of the first quarter following the 12-month period, the first quarterly engagement will not be due until 90 days after the date the designation is received. However, the first quarterly engagement should cover the initial 3-month period.)

For all quarterly engagements, there should be no lapses of coverage. For example:

Assume the end of an applicant's 12-month period is 12/31, with its application submitted on 3/31. Designation is received on 5/31. The report for quarter one is not due until 8/31. In this instance, a report covering the first and second quarters (1/1-3/31 and 4/1 - 6/30) could be submitted at 8/31.

In addition to the quarterly engagements, the regulations in 34 CFR 682.415(b)(6)(iii) require continued annual engagements to maintain EP designation. The regulations state that the annual engagement can be conducted with a representative sample from the fourth quarter. Therefore, after receiving EP designation, entities should submit three quarterly engagements as identified above, and an annual engagement which includes representative coverage for the fourth quarter (i.e., practitioners should select a sample of loans from loans serviced during the 4th quarter. See *Statistical Sample Methodology* section of this guide).

Practitioners are to compute and report a compliance performance percentage for the fourth quarter based on the representative coverage of fourth quarter activity reviewed. The reporting, however, should be made as part of the annual engagement report. In determining the compliance performance calculation for the annual engagement, the agreed-upon procedures performed for the three quarterly engagements and can also be used. However, practitioners using 90 percent confidence levels for the quarterly engagements would need to select additional loans to meet the 95 percent confidence level for the annual audits (See *Statistical Sample Methodology* section of this guide).

REPORTING ENTITY

Section 428I of the HEA refers to the designation of a lender or lender servicer as a single entity and does not indicate that separate lender units or servicing centers should be evaluated individually. Consistent with the statutory language, it is important to view the applicant as a single entity in performing the procedures relative to the determination of its overall compliance percentage, regardless of the number of loan servicing centers.

PRACTITIONER QUALIFICATIONS

A practitioner must meet the qualification and independence standards contained in *Government Auditing Standards*, including the requirements relating to continuing professional education. A lender's or lender servicer's internal auditors are not deemed by ED to be independent of the entity while auditing within it. Therefore, they cannot perform the required FFELP engagements.

The agreed-upon procedures to be enumerated or referred to in the practitioner's report are to be performed entirely by the practitioner. However, as set forth in SSAE No.4, paragraph 24, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the practitioner's use in performing the agreed-upon procedures.

The audit organization is required to meet the quality control standards of *Government Auditing Standards*. Those standards require that practitioners and audit firms comply with the applicable provisions of the public accountancy laws and rules of the jurisdiction in which they are licensed and where the engagement is being conducted. If the lender or lender servicer is located in a State outside the home State of the practitioner, and the practitioner performs substantial field work in the lender's State, the practitioner should document his/her compliance with that State's public accountancy

licensing requirements. This guide does not impose additional licensing requirements beyond those established by the individual State Boards of Accountancy.

ENGAGEMENT LETTER

The practitioner must prepare a letter of engagement to communicate to the lender or lender servicer the nature of the agreed-upon procedures engagement. The letter must include:

- A statement that the engagement is to be performed in accordance with *Government Auditing Standards*, AICPA Statement on Standards for Attestation Engagements, and this guide.
- A description of the scope of the engagement and related reporting that meets the requirements of this guide.
- A statement that both parties understand that the U.S. Department of Education intends to use the practitioner's report in conjunction with the lender or lender servicer management's assertions to determine whether the lender or lender servicer maintained the 97 percent compliance performance percentage.
- A provision that the practitioner is required to provide ED, the Inspector General and their representatives access to working papers (including making photocopies, as necessary) upon request. [Practitioners should refer to Appendix F concerning Confidential Commercial Information and AU Section 9339, "Interpretations of AU Section 339 'Working Papers,' " of the AICPA Professional Standards for guidance.]

PLANNING CONSIDERATIONS

Purpose and Objective

The overall purpose of this engagement is to provide a report on management's assertions, including findings if appropriate based on applying agreed-upon procedures as set forth in this guide.

Agreed-upon Procedures Engagement

In an agreed-upon procedures engagement the practitioner is to report his or her findings based on the procedures performed. The following conditions must exist for the practitioner to perform an agreed-upon procedures engagement (Ref. SSAE No.3, paragraphs 9 and 10, and SSAE No.4, paragraph 10):

- a. Management must accept responsibility for the entity's compliance with respect to conversion of loans to repayment, collection of delinquent loans, and timely claim filings with the guaranty agency.
- b. Management evaluates the entity's compliance with respect to conversion of loans to repayment, collection of delinquent loans, and timely claim filings with the guaranty agency.

- c. Management makes an assertion about the entity's compliance with respect to conversion of loans to repayment, collection of delinquent loans, and timely claim filings with the guaranty agency. The assertion may be in a representation letter to the practitioner or in a separate report to accompany the practitioner's report.
- d. The agreed-upon procedures (1) are applied to the assertion (or its subject matter) that is capable of evaluation against reasonable criteria and (2) are expected to result in findings that are capable of reasonably consistent estimation or measurement.

Management Assertions and Scope

The practitioner is required to obtain written assertions from management as part of a compliance attestation engagement performed in accordance with the AICPA Attestation Standards [See Lender Assertion information in Section III]. Management's written assertions (which can be in the form of a representation letter to the practitioner) are the basis for the practitioner's testing, and therefore, are an integral part of the engagement. A lender does not have to service its entire loan portfolio to be eligible for EP designation. It may receive designation based on loans it actually services itself. However, a lender may not receive designation for a portion of its loan portfolio serviced by a lender servicer unless the lender servicer has separately received designation on its entire loan portfolio. Thus, the lender or lender servicer management's assertions can only be made for the loans that it actually services. An example of the type of management assertion that should be obtained is included in Appendix B, Example 2.

Lenders or lender servicers are **not** to exclude portions of their loan portfolio for purposes of the assertions by management relating to the satisfaction of the requirement of a 97 percent compliance percentage. Section 428I(a)(2) of the HEA requires that due diligence on each loan serviced during the engagement period shall be reviewed in determining the applicable compliance rate. Therefore, the statute does not provide any basis for excluding portions of a lender's or lender servicer's loan portfolio. The entire loan portfolio (that is serviced by the lender or lender servicer) should be considered for review in attesting to management's assertions about the applicable compliance rate for possible EP designation.

In many instances, lenders or lender servicers will acquire loans for servicing after they have already been converted to repayment and a certain number of due diligence activities have already been performed by the prior holder or its servicer. However, as set forth in 34 CFR 682.415(b)(3), the practitioner may consider only due diligence activities applicable during the engagement period.

REPORTING CONSIDERATIONS

Reporting Noncompliance

Management's assertions and the practitioner's report issued pursuant to this guide are a primary tool used by the Secretary of Education in determining whether to designate a lender or lender servicer for EP status.

In this agreed-upon procedures-level engagement, all instances of noncompliance identified by the practitioner during his/her engagement, must be reported to the lender or lender servicer by completing a Schedule of Findings (See Appendix B, Example 3). To be of value, reported findings must contain adequate information to give findings perspective and to allow the managers to make appropriate decisions. In reporting instances of noncompliance, the practitioner should clearly describe the noncompliance found, including the loan or loans affected. Other information which may identify the cause (system weakness, etc.) may be provided if known by the practitioner. However, the practitioner is not required to determine the cause of noncompliance identified during this engagement nor is the practitioner required to evaluate the entity's internal control structure. The lender or lender servicer is required to take corrective action on all reported noncompliance or system weaknesses (if possible), and maintain evidence of such for a minimum of five years.

Matters Requiring Immediate Action

If the practitioner becomes aware of possible illegal acts or indications of such acts which could result in criminal prosecution, except those that are clearly inconsequential, the practitioner should use discretion to avoid any actions which would compromise the protection of an individual's rights and the integrity of any official inquiries. For supplemental guidance, see Chapters 4 and 5 of *Government Auditing Standards*. In addition, practitioners may wish to consult SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, and SAS No. 54, *Illegal Acts by Clients*.

This Guide requires the practitioner to promptly prepare a separate written report concerning such acts or indications of such acts and include all information described in Appendix B regarding the reporting of findings. This report should be submitted to the ED Office of Inspector General within 30 days after the date of discovery of the act or, if the practitioner decides to further explore the indications of such acts to determine the size and seriousness of the situation, the report should be submitted within 30 days after he/she has completed the additional work. The practitioner shall submit this report to the Assistant Inspector General for Investigations at the following address:

Assistant Inspector General for Investigations
U. S. Department of Education
Room 4106 MES
600 Independence Avenue, S.W.
Washington, D.C. 20202-1530

Report Submission

The practitioner's reports should be submitted to the lender's or lender servicer's governing body (for example, Board of Directors) and/or President, as appropriate. The reports should clearly indicate the period the agreed-upon procedures engagement covered. The lender or lender servicer shall include a copy of the practitioner's reports to ED at time of submission of its application for EP. In addition, the lender or lender servicer is required to submit its annual financial and compliance audit when applying for Exceptional Performer designation (See Section III Reporting). The practitioner's reporting package is to be held by the lender or lender servicer for a period of five years, unless

specifically requested by ED. Further guidance on reporting requirements is contained in Section III of this guide.

QUALITY CONTROL REVIEWS

The ED Office of Inspector General has implemented procedures for evaluating non-Federal practitioners' work. As part of this evaluation, working papers shall be made available upon request to the cognizant Regional Inspector General for Audit (RIGA) [see Appendix A] or other representatives of the Secretary. To facilitate these requests, the practitioner's reporting package should include an information sheet identifying the name, address, and telephone number of the partner on the engagement (see page III-1). Working paper reviews will normally take place at the practitioner's office.

Deficient Work

Whenever an evaluation of a report or working papers discloses inadequacies, the practitioner may be asked to take corrective action. If ED determines that the report and working papers are substandard or contain significant inadequacies, referral to the AICPA and the cognizant State Board of Accountancy will be considered. ED may also initiate action to debar the practitioner from further participation in Federal programs.

In addition, certain State Boards of Accountancy have requested that we send them copies of correspondence detailing deficiencies noted during our reviews. This includes the licensee's home State as well as the State(s) where the engagement was conducted, if different. This is for information only and does not constitute a referral for disciplinary action. Notification to the State Board is concurrent with notification to the licensee.

Freedom of Information Act Considerations

Lenders, lender servicers, or practitioners who deem any of the working paper information to be "confidential commercial information" should take appropriate steps to so designate that information. Such designation may protect its confidentiality if, at a future point of time, a request is made for disclosure of this information under the Freedom of Information Act (FOIA). "Confidential commercial information" means records that may contain material exempt from release under Exemption 4 of the FOIA (pertaining to trade secrets and commercial or financial information that is privileged or confidential) because disclosure could reasonably be expected to cause substantial competitive harm. Further information regarding the designation of such documents and OIG procedures upon receipt of an FOIA request is contained in Appendix F.

SECTION II

AGREED-UPON PROCEDURES ENGAGEMENT

COMPLIANCE REQUIREMENTS, MANAGEMENT ASSERTION, AND AGREED-UPON PROCEDURES

INTRODUCTION

This section (1) lists the regulations applicable to this engagement, (2) clarifies the scope of management's assertion, and (3) provides the agreed-upon procedures the practitioner should perform relative to management's written assertions.

To perform the engagement, the practitioner should obtain, read and/or have available:

- (a) 34 CFR Part 682¹.
- (b) Bulletin 88-G-138 and related Questions and Answers [Cure Bulletin] (Appendix D of 34 CFR Part 682)
- (c) Dear Colleague Letter issued 3/96 (96-L-186, 96-G-287) which clarifies and provides interpretative guidance on the 12/92 FFELP regulations.

Special Loan Situations

The practitioner's sample may contain loans that are subject to certain waivers, and loans that have lost reinsurance coverage; 1) prior to the engagement period, 2) during the engagement period, and, 3) are cured. These loans should be treated as follows:

- ▶ Waivers - In certain instances the Secretary grants waivers of specific due diligence requirements due to extenuating circumstances (e.g., natural disasters, unforeseeable systems difficulties, etc.). These waivers deem the holder of the covered loans harmless for failing to comply with prescribed due diligence requirements and often impose conditions or limitations for the waiver to apply. These loans should not be excluded from the sample. However, the practitioner must report (e.g., in a footnote disclosure) how many sampled loans were subject to the waiver. In addition, the practitioner's working papers must include a copy of the relevant waiver as well as supporting documentation (if necessary) that would support exercising the waiver. To calculate the

¹Copies of the Code of Federal Regulations can be obtained by contacting the Superintendent of Documents, U.S. Government Printing Office, Washington D.C. 20402 at (202)512-1800 or a Compilation of Student Financial Aid Regulations can be obtained by calling 1-800-4-FEDAID.

lender's or lender servicer's compliance percentage, the activities covered by the waiver should be **excluded** from **both** the numerator and the denominator. **All other required** activities, including any additionally imposed by the waiver, should be included in the denominator and the successfully completed activities should be included in the numerator.

- ▶ Unreinsured Loans - Lost Reinsurance Prior To Current Engagement. Loans that lost reinsurance prior to the current engagement (even if the loan lost reinsurance while with a previous holder) are to be included in the determination of the compliance performance rating. For purposes of the calculation, all of the activities that should have been conducted on the loan during the engagement period, should be included in the denominator. Correspondingly, all of the activities that should have been conducted during the engagement period are to be reported as unsuccessful activities (0 count) in the numerator of the calculation.
- ▶ Unreinsured Loans - Losing Reinsurance During Current Engagement Period. Loans selected in the sample that lose reinsurance at any time during the engagement period should have all required activities counted in the denominator. Activities after the loss of reinsurance should be reported as unsuccessful in the numerator (0 count).
- ▶ Unreinsured Loans That Are Cured - Loans that lost reinsurance for which a cure is affected during the engagement period would count the cure as one successful activity in the numerator (Activities performed after a loan lost reinsurance and prior to a cure do not count as successful activities). Also, any due diligence activities after a cure occurring during the engagement period would be counted as successful activities. (Note: For cures made after the engagement period, activities performed after a loan lost reinsurance and prior to a cure would not count as successful activities.

NOTE:

If the borrower has never made a payment on the loan, the auditor must go back in the loan history and determine if the loan was correctly and timely converted to repayment and key the succeeding due diligence activities off the first day of delinquency regardless of when the loan was actually converted to repayment. (If the loan was not converted to repayment correctly and timely, all of the succeeding due diligence activities would be in error and should be treated as unsuccessful activities in the calculation of the 97% compliance percentage.)

If the borrower made one or more payments, it is not necessary for the auditor to determine if the loan was converted to repayment correctly or timely. In these cases, the auditor must go back in the loan history to the due date of the first payment that was not made by the borrower. The first day of the borrower's delinquency is the following day and all succeeding due diligence activities are keyed off that date. (If the first day of delinquency is incorrect, all of the succeeding due diligence activities should be treated as unsuccessful activities in the calculation of the 97% compliance percentage.)

MANAGEMENT ASSERTION, STATISTICAL SAMPLE METHODOLOGY, AND AGREED-UPON PROCEDURES

This section provides the required lender or lender servicer management assertion, agreed-upon procedures the practitioner is to perform for the sample selection, and the suggested sample selection methodology to be used by the practitioner. **NOTE: The Statistical Sample Methodology Section provides a suggested approach for selecting the sample size, and calculating the statistical results. Practitioners that use an alternative approach, must submit a full description of their sampling plan (universe, sample size, etc.), and the statistical methodology used in measuring results. Regardless of the method used, practitioners are required to use the required confidence levels and tolerable error rate as noted in this section.**

Management Assertion

The Lender or Lender servicer performed 97% or higher of all due diligence requirements applicable to each loan, on average, with respect to converting FFELP loans to repayment, collecting delinquent loans, and timely claim filings during the period _____ to _____.

For Quarterly Engagements the assertion should be changed appropriately to reflect the 97% compliance requirement for two consecutive months and 90% compliance requirement for any one month as follows:

The Lender or Lender servicer performed 97% or higher for two consecutive months and performed at 90% or higher for any one month, of all due diligence requirements applicable to each loan, on average, with respect to converting FFELP loans to repayment, collecting delinquent loans, and timely claim filings during the period _____ to _____. (See Note for Quarterly Engagements, pg. II-6).

Scope of Management's Assertion

Lenders Servicing All of Their Loan Portfolio

When the lender performs the required due diligence activity for all of its FFELP loan portfolio, the assertion made by lender management must cover the due diligence activity (including converting FFELP loans to repayment, collecting delinquent loans, and timely claim filing requirements to the guaranty agency) for all FFELP loans serviced by the lender during the engagement period. The practitioner should perform an agreed-upon procedures level attestation engagement on the lender management's assertion applicable to all FFELP loan portfolios serviced by the lender during the period covering the lender management's assertions.

Lenders Using Servicers To Service Part of Their Loan Portfolio

When the lender uses a third-party servicer to perform the required due diligence activity for part of its FFELP loan portfolio, the assertion made by lender management must cover only the due diligence activity (including converting FFELP loans to repayment, collecting delinquent loans, and timely claim filing requirements to the guaranty agency) for the FFELP loans serviced by the lender (not the

servicer) organization. The practitioner should perform an agreed-upon procedures level attestation engagement on the lender management's assertion applicable to the portion of the FFELP loan portfolio the lender services.

Servicers

As noted in the previous section, many lenders use a third-party servicer to perform the required due diligence activity for part or all of its FFELP loan portfolio. Servicers desiring EP status, are required to apply for such designation for the loans they service. The assertion made by the servicer management must cover the due diligence activity (including collecting delinquent loans, converting FFELP loans to repayment, and timely claim filing requirements to the guaranty agency) for all FFELP loans it services. The practitioner should perform an agreed-upon procedures level attestation engagement on the servicer management's assertion applicable to all FFELP loan portfolios it serviced during the period for which management's assertions are being made.

Statistical Sample Methodology

The EP regulations in 34 CFR § 682.415 (b)(3) specify that the practitioner is to calculate the compliance performance percentage using statistical sampling and evaluation techniques. The regulations specify that a random sample of loans must be selected and evaluated. For this attestation engagement, ED requires a high level of assurance as to the testing of management's assertion that it maintained a 97% or higher compliance performance percentage with respect to converting loans to repayment, collecting delinquent loans, and timely claim filing requirements.

Sampling for attributes is to be used on this attestation engagement. The test procedures set forth for each of the three compliance areas relate to substantive tests of details as opposed to tests of controls. For this attestation engagement ED is requiring the use of statistical sampling techniques, including selecting a random sample of loans from the universe of all FFELP loans serviced during the period covered by the attestation engagement.

Population/Sample Size

ED believes that most lenders or lender servicers that will apply for EP designation will process many thousands of loans. In such a large population, the size of a sample is virtually independent of the size of the universe, but rather depends on the confidence desired by the user, the range over which this confidence would hold, the tolerable error rate (in this case, three percent), and the error rate the practitioner expects to encounter. Practitioners customarily express this sampling risk by describing the "reliability" and range of reliability (the "confidence level") of any particular sample. The "confidence level" of a sample is the inverse of the "risk of over reliance." For example, a practitioner might accept a 5% risk that the result of the sample might not be representative of the population as a whole. This means that the risk of over reliance is 5%. A sample chosen on such a basis would yield a 95% confidence level. ED is requiring confidence levels of a least 95% for the initial and subsequent annual engagements, and at least 90% for the quarterly engagements.

The Act and the implementing regulations base the EP designation on *activities performed*. However, the Department recognizes that the practitioner will probably find it more practical to select the sampling unit (i.e. required due diligence activities) by first selecting a *sample of loans* (which include required due diligence activities) from the population of *loans serviced*. The sample results

should be accumulated, and the sample evaluated, based on the *required activities* and the *activities performed* from the loans sampled. The servicing portfolio will most likely include loans to borrowers who are in school or in a grace period and therefore are not subject to the due diligence activities that are the basis of the designation. In selecting a sample, the practitioner may wish to exclude such loans from the population, in order to limit testing, but in that case, the practitioner should test the lender's or lender servicer's classification of loans to assure that a population so chosen would not routinely exclude loans that *should be* in repayment and therefore subject to sampling.

Tables 1 and 2 of Appendix G (excerpted from the AICPA audit guide, *Audit Sampling*), are included in this guide to assist the practitioner in selecting the sample for this engagement. The practitioner should refer to these tables in determining a sample size (*required activities*) for the annual (Table 1) or quarterly (Table 2) engagement. Each of these tables includes the elements needed to select such a sample; the "confidence level" (95% for annual or 90% for quarterly) or "risk of over reliance" (5% or 10%), the tolerable error rate (3% for this engagement), and the expected error rate. When using these tables, the practitioner should read down the expected population deviation rate column to find the appropriate rate. Next, the practitioner should locate the column corresponding to the tolerable rate (3%) column). The appropriate sample size is shown where the two factors meet. As an example, a practitioner who expects an error rate of 2.25% would select a sample (*required activities*) for an annual engagement from Table 1 of 1,692. For a quarterly engagement, a confidence level of at least 90% would be required, so the sample would be 992. Practitioners are to select samples of loans until the number of *required due diligence activities* is reached. (Note: if the practitioner estimates that the lender or lender servicer performed less than 2,000 activities in a quarter or a year, then he or she should adjust the sample size accordingly).

Testing Activities

The practitioner should test activities performed on these loans and should enter the results on the tables specified in this guide. To qualify as an *activity*, a due diligence step should be one that the lender or lender servicer would reasonably be expected to perform at the time. It should not include due diligence steps that are not required during the period tested. For example, the regulations specify the required number of letters and phone calls to be conducted within a period. A lender or lender servicer may send a letter to a borrower during the period between telephone calls, but is able to establish contact with the borrower in a subsequent phone call, thus rendering the letter unnecessary under the regulations. Since the letter was a reasonable step at the time, it should be considered as an activity in this case. A letter sent after contact is established, or an *extra* letter sent during the due diligence period, would not qualify as an activity for examination purposes, and would be excluded from the tables prepared by the practitioner.

Errors/Activity Measurement

For purposes of the EP engagement, an *error* is defined as an activity that is required but is conducted late, or not at all, by the lender or lender servicer. Most activities are triggered by previous actions that were required or performed by the lender or lender servicer. The regulations may require that a lender or lender servicer perform a number of activities during the engagement period; these may be performed late or not at all because of a failure to recognize the need for such an activity (a failure to convert a loan to repayment, for example). In this case, the failure to convert the loan would be

counted as an error for purposes of the engagement (Counted as 2 errors if both the repayment begin date and first payment due date are determined incorrectly). Also, all of the succeeding due diligence activities would be in error and should be treated as unsuccessful activities in the calculation of the 97% compliance percentage.

A key element in performing this engagement is *when* (in what month) to record an activity that is required and actually performed. This is especially critical when performing quarterly engagements, including determining compliance performance for a given month. For example, when a delinquency letter is prepared, is it counted when it actually is sent out, or at the time it is supposed to have been sent? In many instances, the time an activity is performed will occur earlier (in a different month) than when it has to be performed. For purposes of this engagement, the practitioner should normally *match* the point (month) at which an activity is performed with the point (month) for which the activity is required to be performed. Thus, the numerator and denominators of the compliance performance calculation should match with each other. The following example demonstrates this point:

Example: A borrower's 150th day of delinquency is April 15. A normal delinquency letter which is required to be sent out no later than (NLT) day 150, or April 15, is actually sent out on March 12th. The practitioner should count the letter (performed activity) in April (required activity), even though it went out in March. This is because April is the NLT date by when it was suppose to be sent out. However, if in this example, the engagement period ended March 30th, the required and performed activity should be counted in March so as to match the activities (required and performed) within the engagement period.

In the example above, the numerator and denominator (performed and required activities) in measuring compliance performance, are matched together. This should prevent a misinterpretation of test results when performing the quarterly engagements, and when recording activity at the beginning/ending of the annual engagement.

Evaluation of Results

After the practitioner completes all required test procedures and tables (as set forth in this guide) for the activities sampled, he/she is to compute the estimated compliance performance percentage for the sampled activities (using the formula and tables in Appendix H). This computation is to be made using statistical evaluation techniques based on the sample size, P, and the required 95% (annual audits) and 90% (quarterly audits) confidence levels. To be designated as an EP, the compliance performance percentage must not be less than the required 97% performance level. (NOTE: Only one overall compliance performance percentage is computed for the three compliance areas specified in this guide. See example computation on page E-1.)

(Note: Tables 1 and 2 of Appendix G which are used for selecting the sample, include numbers in parenthesis next to the minimum sample size. These numbers represent the maximum number of

errors which could be found in the sample of activities and still meet the required tolerable error rate (3% for this engagement) at the respective 95% and 90% confidence levels.)

☞ **Note for Quarterly Engagements** - The lender or lender servicer's computed estimated compliance percentage must be at least 97 percent for the quarter, 97 percent for two consecutive months, **and** at least 90 percent for any one month. Select a sample (using at least a 90% confidence level) of FFELP activities from loans included in the universe of all FFELP loans that were serviced during the quarterly engagement period. (Although the quarterly engagements will evaluate compliance on a monthly basis, one sample selection can be made for the loans serviced during the quarter instead of taking three separate monthly samples).

The practitioner should perform the required procedures in Section II and calculate the estimated compliance percentage for the quarter to determine whether the lender or lender servicer meets the EP requirements. Assurance against a month to month deterioration should be accomplished by identifying the quarterly sampled activities at month specific level and making the same overall performance calculation month by month.

☞ **Replacement Sampling** -. Loans which are permanently uninsured (i.e. they are not subject to the cure process) should be eliminated from the sample (i.e., replaced). Replacement loans should be chosen using the same methodology that was used to select the initial sample.

☞ **Loans Purchased During Engagement Period** - Loans purchased during the engagement period may have been converted to repayment by the previous holder prior to the purchase by the current holder (auditee). In this instance the practitioner may or may not have to review the correctness of the loan conversion. This will depend on whether or not the borrower has made a payment. Please see NOTE on page II-2 of this Guide.

☞ **Loans Sold During Engagement Period** - Loans sold during the engagement period that are selected in the sample, must be included in the determination of the auditee's compliance performance percentage. This may require the practitioner to obtain records from the purchaser in the event that adequate records regarding due diligence activity performed by the auditee are not retained.

1. CONVERSION OF FFELP LOANS TO REPAYMENT

The practitioner is to perform agreed-upon procedures to test whether the lender or lender servicer has complied with the requirements for converting FFELP loans to repayment, including the proper determination of the first payment due date as set forth in 34 CFR § 682.209(a). (NOTE: The lender or lender servicer is required to maintain current, complete, and accurate records for each loan, including the repayment schedule and a record of each loan proceeds disbursement. [34 CFR § 682.414(a)(3)(i) and (ii)])

Situations may arise, where the repayment begin date or the first payment due date may not both occur during the engagement period. If both required activities have been performed correctly, but only one is within the engagement period, only one action is included in the numerator and denominator in the calculation of the compliance performance percentage. If the repayment begin date is not correct and is within the engagement period, it would normally have led to an incorrect determination of the first payment due date. In this instance only one error should be noted (i.e., improper repayment begin date). The incorrect first payment due date (which occurred after the engagement period) should not be considered in either the numerator (performed activity) or the denominator (required activity) of the compliance performance calculation. However, if the first payment due date falls within the engagement period, but the repayment begin date was prior to the engagement period, the practitioner should determine the accuracy of the repayment begin date in order to determine if the first payment due date was calculated properly. If the repayment begin date is computed in error, the corresponding first payment due date is most likely in error. In this instance one error should be noted (i.e., improper first payment due date). Since the improper repayment begin date was prior to the engagement period, it is not considered in the compliance performance calculation.

A. Consolidation Loans.

The repayment period begins on the date the loan is disbursed. The first payment is due within 60 days after the date the loan is fully disbursed.

Agreed-Upon Procedures to be Performed by The Lender or Lender Servicer Practitioner For Consolidated Loans in the sample, perform the following:

- Step 1. Schedule the Consolidated loans and determine the **required** beginning date of the repayment period for each loan. (E.g., the date the loan was fully disbursed.) Enter the total number of loans in this category in Table 1, Line A1, Column A.
- Step 2. Compare the dates in Step 1 with the lender or lender servicer's records and identify the loans in this category where beginning date of the repayment period was properly documented. Enter the total number of loans in Table 1, Line A1, Column B.

- Step 3. For the loans scheduled in Step 1, calculate the **required** due date of the first payment for each loan. Enter the total number of loans in this category (same number as Step 1) in Table 1, Line A2, Column A.
- Step 4. Compare the dates in Step 3 with the lender or lender servicer's records and identify the loans in this category where the first payment due date was properly **documented**. Enter the total number of loans in Table 1, Line A2, Column B.

B. PLUS Loans.

The repayment period begins on the date of the last disbursement. [NOTE: PLUS loans may have been disbursed in either single or multiple disbursements depending on the date of the first disbursement. Multiple disbursements were required after 10/01/93.] The first payment is due within 60 days of the last disbursement.

Agreed-Upon Procedures to be Performed by The Lender or Lender Servicer Practitioner For PLUS Loans in the sample, perform the following:

- Step 1. Schedule the PLUS loans and determine the **required** beginning date of the repayment period for each loan. (E.g., the date the loan was fully disbursed.) Enter the total number of loans in this category in Table 1, Line B1, Column A.
- Step 2. Compare the dates in Step 1 with the lender or lender servicer's records and identify the loans in this category where the beginning date of the repayment period was properly documented. Enter the total number of loans in Table 1, Line B1, Column B.
- Step 3. For the loans scheduled in Step 1, determine the **required** due date of the first payment for each loan. Enter the total number of loans in this category (same number as Step 1) in Table 1, Line B2, Column A.
- Step 4. Compare the dates in Step 3 with the lender or lender servicer's records and identify the loans in this category where the first payment due date was properly **documented**. Enter the total number of loans in Table 1, Line B2, Column B.

C. SLS Loans.

IMPORTANT NOTE: For SLS borrowers who also have Federal Stafford loans on which they haven't yet entered repayment, the borrower may request to delay repayment on the SLS loan to coincide with the repayment begin date on the Stafford loan. In such cases, the repayment period for the SLS loan is the same as for the Stafford loan.

The repayment period begins on the date the loan is disbursed, or if the loan is disbursed in multiple installments, the date of the last disbursement. [NOTE: SLS loans may have been disbursed in either

single or multiple disbursements. Multiple disbursements were required after 10/01/93] The first payment is due within 60 days after the date the loan is fully disbursed.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner for SLS Loans in the sample, perform the following:

- Step 1. Schedule the SLS loans and determine the **required** beginning date of the repayment period for each loan. (e.g. the date the loan was fully disbursed.) Enter the total number of loans in this category in Table 1, Line C1, Column A.
- Step 2. Compare the dates in Step 1 with the lender or lender servicer's records and identify the loans in this category where beginning date of the repayment period was properly documented. Enter the total number of loans in Table 1, Line C1, Column B.
- Step 3. For the loans scheduled in Step 1, calculate the **required** due date of the first payment for each loan. Enter the total number of loans in this category (same number as Step 1) in Table 1, Line C2, Column A.
- Step 4. Compare the dates in Step 3 with the lender or lender servicer's records and identify the loans in this category where the first payment due date was properly **documented**. Enter the total number of loans in Table 1, Line C2, Column B.

D. Stafford Loans.

The repayment period begins following the date on which the borrower is no longer enrolled on **at least** a half-time basis at an eligible institution as follows:

| | |
|---|--|
| Applicable Interest Rate - 7%/Year | Initial Applicable Interest Rate - 8%;9%; 8/10%/Year or variable |
| Not less than 9 months nor more than 12 months ** | 6 months |

** The length of this grace period is determined by the lender for loans made under the FISL Program, and by the guaranty agency for loans guaranteed by the agency.

Correspondence Students

For a borrower of a Stafford loan who is a correspondence student, the grace period specified above begins on the earliest of the date:

The borrower completes the program;

The borrower falls 60 days behind the due date for submission of a scheduled assignment, according to the schedule required in 34 CFR § 682.602. However, a school may grant the

borrower one restoration to in-school status if the borrower fails to submit a lesson within this 60-day period after the due date for submission of a particular assignment **if**, within the 60-day period, the borrower declares, in writing, an intention to continue in the program and an understanding that the required lessons must be submitted on time; or

That is 60 days following the latest allowable date established by the school for completing the program under the schedule required under 34 CFR § 682.602.

Borrower Requests Shortened Grace Period

For a Stafford loan, the repayment period begins prior to the end of the grace period if the borrower requests in writing and is granted a repayment schedule that so provides. In this event, a borrower waives the remainder of the grace period.

The first payment on a Stafford loan is due on a date established by the lender that is no more than:

- 45 days following the first day that the repayment period begins;
- 45 days from the expiration of a deferment or forbearance period;
- 45 days following the end of the grace period;
- If the lender first learns after the fact that the borrower has entered the repayment period, no later than 75 days after the date the lender learns that the borrower has entered the repayment period; or
- An additional 30 days beyond the above periods in order for the lender to comply with the disclosure requirements to the borrower (34 CFR 682.205(c)(1)).

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner For Stafford Loans in the sample, perform the following:

- Step 1. Schedule the Stafford loans and calculate the **required** beginning date of the repayment period for each loan. Enter the total number of loans in this category in Table 1, Line D1, Column A.
- Step 2. Compare the dates in Step 1 with the lender or lender servicer's records and identify the loans in this category where beginning date of the repayment period was properly documented. Enter the total number of loans in Table 1, Line D1, Column B.
- Step 3. For the loans scheduled in Step 1, calculate the **required** due date of the first payment for each loan. Enter the total number of loans in this category (same number as Step 1) in Table 1, Line D2, Column A.
- Step 4. Compare the dates in Step 3 with the lender or lender servicer's records and identify the loans in this category where the first payment due date was properly **documented**. Enter the total number of loans in Table 1, Line D2, Column B.

E. Transfer Totals

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

1. Sum Table 1, columns A & B.
2. Transfer the totals to the Summary Table, Line 1, columns A & B respectively.

2. COLLECTION OF DELINQUENT LOANS

The lender or lender servicer may be following two different sets of due diligence regulations for loans included in their portfolios. Lender or lender servicers were allowed to continue using the November 1986 regulations on loans that were included in their portfolios both prior to and after issuance of the December 1992 due diligence regulations. The practitioner should consult with the lender or lender servicer and review Dear Colleague Letter 96-L-186/96-G-287 as to the applicability of the 1986 and 1992 regulations for the loans sampled. **[Note: Dear Colleague Letter 96-L-186/96-G-287 stipulates July 1, 1996 as the deadline for fully implementing and enforcing certain provisions of the December 18, 1992 regulations that were subject to delayed enforcement.]**

General Information

NOTE: The following documentation will satisfy the requirements of this guide relative to determining whether the lender or lender servicer met the due diligence compliance requirements pertaining to collection of delinquent loans:

- ▶ Copies of collection letters sent to the borrower or endorser, or the loan collection history. Information on file should identify the date and subject of each communication (e.g., documentation of a telephone contact, written notice, collection letter, etc.) between the lender or lender servicer and the borrower or endorser, regarding delinquent loan collection. [If letters are system-generated, the agency is only required to maintain samples of each letter with the system history identifying which letter was sent on what date.]
- ▶ Any other loan portfolio documents that provide evidence that the due diligence requirements were met.

[The loan records may be stored on microfilm, optical disk, or other machine readable formats]

☞ Note Regarding Telephone Due Diligence - The practitioner must verify telephone contacts with the borrower by matching recorded "long distance" telephone calls from lender or lender servicer records with telephone bills or records from the telephone company on a sample basis (i.e., not all required calls selected in the engagement sample need to be verified. Practitioners should use professional judgment in determining the number of telephone attempts to be verified). A busy signal is counted as an unsuccessful attempt. Two unsuccessful attempts are counted as a diligent effort, if the lender/servicer has reason to believe that the phone number for the borrower is correct. However, in the case of a busy signal, this would not result in an associated long distance charge on the telephone bill. Thus, only actual contacts (phone is answered) will be verifiable with a telephone bill or records from the telephone company.

- ☞ Note Regarding Rolling or Cascading Delinquencies - Loans selected in the sample may include rolling delinquencies (loans that go back and forth to different stages of delinquency because the borrower makes periodic payments or go to a certain level of delinquency, but then are granted a deferment and administrative forbearance to wipe out delinquency before the deferment period, but emerge from the deferment period and then become delinquent again, etc.) or cascading delinquencies (multiple loans of the same borrower being serviced that are at different stages of delinquency because the borrower went into repayment on the loans at different times). For both rolling and cascading delinquencies, the practitioner must determine the activities required under these circumstances and whether the activities were successfully completed.
- ☞ Note Regarding the Counting of Required/Performed Collection Activity - Many of the audit procedures in this section call for multiplying the number of loans included in the sample by a specific number (dependent on the number of required activities for a given delinquency period) to arrive at the total number of required activities. However, in those instances where an individual borrower is delinquent on more than one loan that has been selected in the sample, the lender may perform a single collection activity (i.e., sending a single letter) to cover one or more delinquent loans for that borrower. In this instance, the practitioner should count the activity as having been performed for each delinquent loan included in the sample for this borrower. Thus, a count should be recorded for both required (denominator) and performed (numerator) activities reflected in the Tables included in this guide.

November 1986 Regulations

General. In the event of delinquency on a loan, the lender shall engage in at least the collection efforts described below.

Delinquency. For purposes of this section, delinquency on a loan begins on the first day after the due date of the first missed payment not later made. If a payment is made late, the first day of delinquency is the day after the due date of the next missed payment not later made.

[Note See Section 1 CONVERSION OF FFELP LOANS TO REPAYMENT which sets forth the requirements for establishing the first payment due date]

Gap in Collection Activity. A gap in collection activity does not necessarily indicate a violation or a loss of reinsurance. (The cure bulletin (88-G-138) contains a discussion of this in its definition of gap.) If there is a violation and a gap, then reinsurance is lost. Activities completed after reinsurance is lost may not be included in the numerator as successfully completed activities. The activities that were required or would have been required had reinsurance not been lost must be included in the denominator of the compliance performance calculation.

A. Compliance Requirement - 1 to 30 Days Delinquent

The lender during this period shall send at least **two** written notices or collection letters (unless the borrower's address is unknown) to the borrower informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency.

Agreed-Upon Procedures to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: All of the loans in the sample covered by the 1986 regulations that were delinquent or in default should be included in this category.) For all of the delinquent or defaulted loans included in the sample that were delinquent from 1 to 30 days:

1. Using Table 2A, schedule the loans where **required** written notices or collection letters should have been sent to the borrowers. To determine the total number of required letters multiply the number of loans in this schedule by 2 and enter as the total of Column A.
2. For each of the loans scheduled in Step 1, enter in Column B the number of written notices or collection letters (not to exceed 2 for each loan) **documented** by the lender or lender servicer records as sent to the borrowers. (Note: Confirmation with the borrower is not required). Calculate Column B's total.
3. Transfer the totals from columns A & B to Table 2, Line A, columns A & B respectively.

B. Compliance Requirement - 31 to 60 Days Delinquent

During this period the lender shall make diligent efforts to contact the borrower by telephone*. If the lender is unable, despite those efforts, to reach the borrower by telephone, the lender shall send at least two forceful collection letters (unless the borrower's address is unknown) to the borrower urging the borrower to cure the delinquency. The letters shall also warn the borrower that if the loan is not paid the lender will assign the loan to the guaranty agency that, in turn, will report the default to a credit bureau, thereby damaging the borrowers' credit rating, and may bring suit against the borrower to compel loan repayment.

* Diligent efforts for telephone contact are defined as:

- ▶ A successful effort to contact the borrower by telephone;
- ▶ At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's correct telephone number (a busy signal is considered an attempt); or
- ▶ An unsuccessful effort to ascertain the borrower's correct telephone number, including but not limited to, a directory assistance inquiry as to the borrower's telephone number and a diligent effort to contact references, relatives, and any individual identified in the most recent loan application for that borrower that the lender holds. The lender or lender servicer may contact a

school official other than the financial aid administrator who reasonably may be expected to know the borrower's address.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Section A may also be included in this category if they were delinquent more than 30 days.) For the sample loans that were delinquent between 31 to 60 days:

Telephone Efforts

1. Using Table 2B1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Enter the number of loans as the total of Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that a diligent telephone effort was made to contact the borrower. (Note: Confirmation with the borrower is not required.) Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line B1, columns A & B respectively.

Collection Letters

1. Using Table 2B2, schedule the loans where **required** collection letters should have been sent to the borrower (e.g., unable to contact by telephone). To determine the total number of required letters, multiply the number of loans by "2", and enter as the total of Column A.
2. For each of the loans scheduled in Step 1, enter in Column B the number of collection letters (not to exceed 2 for each loan) that the lender or lender servicer records **document** as sent to the borrowers. (Note: Confirmation with the borrower is not required.) Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line B2, Columns A & B respectively.

C. Compliance Requirement - 61-150 Days Delinquent

During each 30 day period, the lender shall again make diligent efforts to contact the borrower by telephone. During each 30 day period, if the lender is unable, despite these efforts, to reach the borrower by telephone, the lender shall send **at least one** more collection letter (unless the borrower's address is unknown) no less forceful than those described in compliance requirement B above.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Sections A & B may also be included in this category if they were delinquent over 60 days.) For the sample loans that were delinquent between 61 to 150 days:

Telephone Efforts

1. Using Table 2C1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. For each loan enter the total number of required telephone contacts (not to exceed 3 for each loan).
2. For each of the loans scheduled in Step 1, enter the number (not to exceed 1 for each 30-day period and no more than 3 for each loan) of **documented** diligent telephone efforts made to contact the borrower. (Note: Confirmation with the borrower is not required.) Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line C1, columns A & B respectively.

Collection Letters

1. Using Table 2C2, schedule the loans where **required** collection letters should have been sent to the borrower (e.g., unable to contact by telephone). For each loan enter in Column A the total number of required collection letters (not to exceed 3 for each loan).
2. For each of the loans scheduled in Step 1, enter in Column B the number of collection letters **documented** as sent to the borrower (not to exceed 1 for each 30-day period and no more than 3 for each loan). (Note: Confirmation with the borrower is not required.) Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line C2, columns A & B respectively.

D. Compliance Requirement - 151-180 Days Delinquent

Final Demand Letters

During this period the lender shall send a final demand letter to the borrower (unless the borrower's address is unknown), requiring repayment of the loan in full and notifying the borrower that a default will be reported to all national credit bureaus. The lender shall allow the borrower at least 30 days to respond to the final demand letter and to make payments sufficient to bring the loan out of default before filing a default claim on the loan or reporting that default to a credit bureau.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Sections A, B, and C may also be included in this category if they were delinquent over 150 days.) For the sample loans that were delinquent 151-180 days:

1. Using Table 2D, schedule the loans where **required** final demand letters should have been sent to the borrowers. Enter the number of loans as the total number of column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that a final demand letter was sent to the borrower. (Note: Confirmation with the borrower is not required.) Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line D, Columns A & B respectively.

E. Compliance Requirement - Skip Tracing

The lender shall begin to diligently attempt to locate the borrower through the use of normal commercial skip-tracing techniques within 10 days of its receipt of information indicating that it does not know the borrower's current address. These efforts must include, but are not limited to, making a diligent effort to contact each endorser, relative, reference, and any other individual and entity identified in the borrower's loan file.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Sections A, B, C & D may also be included in this category.)

1. Using Table 2E, schedule the loans where **required** skip tracing procedures should have been performed within 10 days of receipt of information indicating that the lender or lender servicer did not know the borrower's current address. Enter the number of loans as the total of Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that the required skip tracing procedure was performed. Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line E, Columns A & B respectively.

F. Compliance Requirement - Preclaims Assistance.

The lender shall request preclaims assistance from the loan guaranty agency within 10 days before or after the date the agency established that it would first provide assistance.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

For each of the delinquent or defaulted loans included in the sample:

1. Using Table 2F, schedule the loans where **required** preclaims assistance from the loan guaranty agency should have been requested. Enter the number of loans as the total of Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that preclaims assistance was requested within the time period. Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line F, columns A & B respectively.

December 1992 Regulations

General. In the event of delinquency on an FFELP loan, the lender shall engage in at least the collection efforts described below. However, in the case of a loan made to a borrower who is incarcerated or to a borrower residing outside a State, Mexico, or Canada, the lender may send a forceful collection letter in lieu of each telephone effort required by this section (34 CFR § 682.411). [**NOTE:** Refer to the definition of "State" in Appendix C].

Delinquency. For purposes of this section, delinquency on a loan begins on the first day after the due date of the first missed payment which is not made later. [For example, if the payment is due January 1, but is never made, the delinquency date is January 2. However, if the January 1 payment is made March 15, the due date would advance to February 1, and the delinquency date is February 2.] If a payment is made late, the first day of delinquency is the day after the due date of the next missed payment which is not later made. A payment that is within five dollars of the amount normally required to advance the due date may nevertheless advance the due date if the lender's procedures allow for that advancement. [Note See Section 1 CONVERSION OF FFELP LOANS TO REPAYMENT which sets forth the requirements for establishing the first payment due date]

Gap in Collection Activity. A gap in collection activity does not necessarily indicate a violation or a loss of reinsurance. (The cure bulletin (88-G-138) contains a discussion of this in its definition of gap.) If there is a violation and a gap, then reinsurance is lost. Activities completed after reinsurance is lost may not be included in the numerator as successfully completed activities. The activities that were required or would have been required had reinsurance not been lost must be included in the denominator of the compliance performance calculation.

G. Compliance Requirement - 1 to 10 Days Delinquent

The lender during this period shall send at least **one** written notice or collection letter to the borrower informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. (Except in the case where a loan is brought into this period by a payment on the loan, expiration of an authorized deferment or forbearance period, or the lender's receipt from the drawee of a dishonored check submitted as a payment on the loan.)

Agreed-Upon Procedures to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: All of the loans in the sample that were delinquent or in default should be included in this category.) For all of the delinquent or defaulted loans included in the sample that were delinquent from 1 to 10 days:

1. Using Table 2G, schedule the loans that should have had **required** written notices or collection letters sent to the borrowers. Enter the number of loans as the total of Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if lender or lender servicer records **document** that the required written notice or collection letter was sent to the borrower. Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line G, columns A & B respectively.

H. Compliance Requirement - 11 to 180 Days Delinquent

(Note: 11-240 days delinquent for a loan repayable in installments less frequent than monthly.)

Unless exempted as set forth in 34 CFR § 682 Appendix D, during this period the lender shall engage in the following, urging the borrower to make the required payments on the loan:

| At least: Four (4) Telephone Efforts | At least Four (4) Collection Letters |
|---|---|
| One must be prior to 90 days | At least two (2) letters must warn the borrower that if the loan is not paid the lender will assign the loan to the guaranty agency that, in turn, will report the default to all national credit bureaus, and that the agency may institute proceedings to offset the borrower's State and Federal tax refunds, to garnish the borrower's wages, and bring suit to compel loan repayment. |
| One must be after 90 days | |

Following the lender's receipt of a payment on the loan or a correct address for the borrower, the lender's receipt from the drawee of a dishonored check received as a payment on the loan, the lender's receipt of a correct telephone number for the borrower, or the expiration of an authorized deferment or forbearance period, the lender is required to engage in only:

| | |
|--|---|
| Less than 91 Days Delinquent (121 days) | 91-120 Days Delinquent (121-180) |
|--|---|

| | |
|--|-----------------------------------|
| Two (2) diligent* telephone efforts | One (1) diligent telephone effort |
| Upon receipt of loan payment, correct address, telephone number etc. | |

* See definition in Appendix C.

Note: The days in parentheses represent the requirements for loan installments made less frequently than monthly.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Section G may also be included in this category if they were delinquent over 10 days.) For the sample loans that were delinquent between 11 to 180 (11 to 240 for loans repayable in installments less frequently than monthly) days:

1. Schedule the loans that should have had **required** telephone efforts made and collection letters sent to the borrowers, using Tables 2H1-2H3 as follows: **[See the examples in Appendix E]**

If:

- ✓ the lender has not received a loan payment, or
- ✓ the lender has not received a correct address for the borrower, or
- ✓ the lender has not received a correct telephone number for the borrower, or
- ✓ the lender has not received a dishonored check from the drawee as a loan payment,

Or

- ✓ an authorized deferment or forbearance period has expired

use Tables 2H1 and 2H2

Else:

use Table 2H3

Use the footnotes to the tables to determine the number of **required** due diligence efforts. Enter the results as the totals for each Column A, as applicable.

2. For each of the loans scheduled in Step 1, enter the number of due diligence efforts (not to exceed the maximum required) that the lender or lender servicer records **document** as having been performed. These numbers should be inserted in Column B of the tables as appropriate. Total Columns A and B of each table.
3. Transfer the totals of Columns A & B to Table 2, rows H1 through H4, columns A & B respectively.

I. Compliance Requirement - Delinquent 151 Days or Greater (Final Demand Letters)

On or after the 151st day of delinquency (the 211th day for loans payable in installments less frequent than monthly) the lender shall send a final demand letter to the borrower (Note: Final Demand letters to Endorsers are covered in Section K) requiring repayment of the loan in full and notifying the borrower that a default will be reported to a national credit bureau. The lender shall allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Sections G and H may also be included in this category if they were delinquent over 150 days.) For the sample loans that were delinquent 151 days or greater:

1. Using Table 2I, schedule the loans where **required** final demand letters should have been sent to the borrowers. Enter the number of required letters for each loan (e.g. 1 or 2) in Column A.
2. For each of the loans scheduled in Step 1, enter in Column B the number of final demand letters that the lender or lender servicer records **document** were sent to the borrower and endorser (e.g., 1 or 2). (Note: Confirmation with the borrower or endorser is not required.) For each loan do not enter more than the required number of letters.
3. Total columns A & B.
4. Transfer the totals from columns A & B to Table 2, Line I, Columns A & B respectively.

J. Compliance Requirement - Skip Tracing

Unless the final demand letter specified in **151 Days or Greater** section above has already been sent, the lender shall begin to diligently attempt to locate the borrower through the use of normal commercial skip-tracing techniques within 10 days of its receipt of information indicating that it does not know the borrower's current address. These efforts must include, but are not limited to making a diligent effort to contact each endorser, relative, reference, and individual and entity identified in the borrower's loan file. For this purpose, a lender's contact with a school official who might reasonably be expected to know the borrower's address may be with someone other than the financial aid administrator identified on the loan application.

These efforts must be completed by the date of default (for purposes of skip tracing, the "default" deadline is interpreted to be up until the lender files the default claim with the guaranty agency so that the lender can still keep working the account up to the last moment to avert the filing of a default claim) with no gap of more than 45 days between attempts to contact those individuals or entities. Upon receipt of information indicating that it does not know the borrower's current address, the lender shall discontinue the collection efforts described in the Compliance Requirements sections G through I above.

If the lender is unable to ascertain the borrower's current address despite its performance of the activities described in the first paragraph above, the lender is excused thereafter from performance of the collection activities set forth in Compliance areas G through I of this section unless it receives communication indicating the borrower's address **before the 151st day of delinquency** (the 211th day for loans payable in less frequent installments than monthly).

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

(NOTE: Loans scheduled in Sections G, H, & I may also be included in this category.) For the sample loans that were delinquent 151 days or greater and where a final demand letter was not sent, or within 10 days of receiving information indicating that it does not know the borrower's current address (which may be less than 151 days):

1. Using Table 2J, schedule the loans where **required** skip tracing procedures should have been performed within 10 days of receipt of information indicating that the lender or lender servicer did not know the borrower's current address. Enter the number of loans as the total of Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that required skip tracing procedures started within 10 days of the entity's receipt of information indicating that it did not know the borrower's current address and where efforts were completed by the date of default. Total Column B.
3. Transfer the totals from columns A & B to Table 2, Line J, Columns A & B respectively.

K. Compliance Requirement - Due Diligence for Loan Endorsers (PLUS Loans only)

[Note: Endorsers could have been present on Stafford and/or SLS loans also]

During the delinquency period (1-180 days; 240 days if installments less frequent than monthly) the lender shall:

- ▶ Make a diligent effort to contact the endorser by telephone.
- ▶ Send the endorser on the loan **two** letters advising the endorser of the delinquent status of the loan and urging the endorser to make the required payments on the loan.

At least one letter must warn the endorser that if the loan is not paid, the lender will assign the loan to the guaranty agency that, in turn, will report the default to all national credit bureaus. In addition, the letter should state that the agency may institute proceedings to offset the endorser's State and Federal income tax refunds, garnish the endorser's wages, and bring suit against the endorser to compel loan repayment.

- ▶ On or after the 151st day of delinquency (the 211th day for loans payable in installments less frequent than monthly) the lender shall send a final demand letter to the endorser requiring

repayment of the loan in full and notifying each one that a default will be reported to a national credit bureau. The lender shall allow the borrower at least 30 days after the date the letter is mailed to respond to the final demand letter and to bring the loan out of default before filing a default claim on the loan.

- ▶ Unless the final demand letter [see Compliance Item I above] has already been sent, upon receiving information indicating that it does not know the endorser's current address or telephone number, the lender must diligently attempt to locate the endorser through the use of normal commercial skip-tracing techniques. This effort **must** include an inquiry to directory assistance.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

Due Diligence Requirements

For the sampled loans that were delinquent 1-180 days (240 if installments are less than monthly):

1. Using Table 2K1, schedule the loans that should have had telephone efforts made and collection letters sent. Enter the total **required** due diligence efforts for each loan in the applicable Column A. Total each Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in the applicable Column B if the lender or lender servicer records **document** that the required due diligence procedures were performed. Total each Column B.
3. Sum the Column A and B totals and enter in the Grand Total column.
4. Transfer the Grand Total amounts to Table 2, row K1, columns A & B respectively.

Skip Tracing Requirements

For the sampled loans that were delinquent 1-180 days (240 if installments are less than monthly) **and** where the final demand letters have not been sent:

1. Using Table 2K2, schedule the loans that should have had skip tracing procedures performed. Enter the total **required** skip tracing procedures in column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that the required skip tracing procedures were performed. Total Column B.
3. Transfer the totals of Columns A & B to Table 2, row K2, columns A & B respectively.

L. Compliance Requirement - Preclaims Assistance.

The lender shall request preclaims assistance from the loan guaranty agency within 10 days before or after the date the agency established that it would first provide assistance.

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

For each of the delinquent or defaulted loans included in the sample:

1. Using Table 2L, schedule the loans where **required** preclaims assistance from the loan guaranty agency should have been requested. Enter the total number of loans in Table 2L, Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that preclaims assistance was requested within the time period. Total Column B.
3. Transfer the totals of Columns A & B to Table 2, Line L, columns A & B respectively.

M. Transfer Totals

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

1. Sum Table 2, columns A & B.
2. Transfer the totals to the Summary Table, Line 2, columns A & B respectively.

3. TIMELY CLAIM FILINGS WITH THE GUARANTY AGENCY

The practitioner is to perform agreed-upon procedures to test whether the lender or lender servicer has filed timely claims with the guaranty agency concerning death, disability, closed school, false certification, or bankruptcy (34 CFR § 682.402) and for the timely filing of default claims (34 CFR § 682.406(a)(5)).

The lender or lender servicer is required to maintain records necessary to document the validity of a claim against the loan guarantee. [34 CFR § 682.414(a)(3)(ii)]

Items To Be Filed (For information purposes to independent practitioners only)

The lender or lender servicer is required to provide the guaranty agency with:

- ▶ The original promissory note.
- ▶ The loan application.
- ▶ In the case of a death claim, those documents that formed the basis for the determination of death as described in 34 CFR § 682.402(b).
- ▶ In the case of a disability claim, a copy of the certification of disability as described in 34 CFR § 682.402(c)(2).
- ▶ In the case of a closed school claim the documentation described in 34 CFR § 682.402(d)(3), or any other documentation as the Secretary may require.
- ▶ In the case of a false certification claim, the documentation described in 34 CFR § 682.402(e)(3).
- ▶ In the case of a bankruptcy claim as described in 34 CFR § 682.402(f):

Evidence that a bankruptcy petition has been filed, all pertinent documents sent to or received from the bankruptcy court by the lender, and an assignment to the guaranty agency of any proof of claim filed by the lender regarding the loan;

AND

A statement of any facts of which the lender is aware that may form the basis for an objection or exception to the discharge of the borrower's loan obligation in bankruptcy and all documents supporting those facts.

A. Compliance Requirement - Filing Deadlines for Death, Disability, Closed School, False Certification or Bankruptcy

A lender or lender servicer shall file claims as follows:

Death or disability - within 60 days of the date on which the lender determines that a borrower has died or is totally and permanently disabled (34 CFR 682.402(g)(2)(i)).

Closed School - no later than 60 days after the borrower submits to the lender the written request and a sworn statement described in 34 CFR § 682.402(d)(3) or after the lender is notified to do so by the Secretary or the Secretary's designee or by the guaranty agency (34 CFR 682.402(g)(2)(ii)).

False Certification Claim - no later than 60 days after the borrower submits to the lender the written request and a sworn statement described in 34 CFR § 682.402(e)(3) or after the lender is notified to do so by the Secretary or the Secretary's designee or by the guaranty agency (34 CFR 682.402(g)(2)(iii)).

Bankruptcy - by the earlier of:

30 days after the date the lender receives a notice of first meeting of creditors unless, in the case of a proceeding under chapter 7, the notice states that the borrower has no assets. (34 CFR 682.402(g)(2)(iv)(A)).

OR

15 days after the lender is served with a complaint or motion to have the loan determined to be dischargeable on grounds of undue hardship, or, if the lender secures an extension of time within which an answer may be filed, 25 days before the expiration of that extended period, whichever is later (34 CFR 682.402(g)(2)(iv)(B)).

OR

30 days after the lender receives a notice from the court stating that a chapter 7 no-asset case has been converted to an asset case. (34 CFR 682.402(g)(2)(iv))

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

For each of the sampled loans affected by death, disability, closed school, false certification, or bankruptcy:

1. Using Table 3A, schedule the loans where the lender should have filed death, disability, closed school, false certification or bankruptcy claims within the **required** time frames stated above. Enter the total number of loans in Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in column B if the lender or lender servicer records **document** that a claim was filed in a timely manner with the guaranty agency. Total Column B.

3. Transfer the totals of Columns A & B to Table 3, Line A, columns A & B respectively.

B. Compliance Requirement - Filing Requirements for Default Claims

A lender or lender servicer shall file default claims with the guaranty agency within 90 days of default (34 CFR 682.406(a)(5)).

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

For each of the sampled defaulted loans:

1. Using Table 3B, schedule the loans where the lender should have filed default claims with the guaranty agency within the **required** time frames stated above. Enter the total number of loans in Column A.
2. For each of the loans scheduled in Step 1, enter a 1 in Column B if the lender or lender servicer records **document** that a claim was filed in a timely manner with the guaranty agency. Total Column B.
3. Transfer the totals of Columns A & B to Table 3, Line B, columns A & B respectively.

C. Transfer Totals

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

1. Sum Table 3, columns A & B.
2. Transfer the totals to the Summary Table, Line 3, columns A & B respectively.

4. CALCULATION OF PERFORMANCE COMPLIANCE PERCENTAGE

Agreed-Upon Procedure to be Performed by The Lender or Lender Servicer Practitioner

1. Using the "required" and "documented" totals from the Summary Table in Appendix E, statistically calculate the lower limit of the lender or lender servicer's compliance performance percentage for performing the requirements for converting FFELP loans to repayment, collecting delinquent and defaulted loans, and timely claim filing, as follows:

The total number of **required** activities represents the *sample size* for purposes of evaluating the statistical sample results. The total number of **documented** activities divided by the sample size is the *proportion of occurrence of a characteristic, or P*.

Step 1. To compute *P*, divide the total **documented** activities [Table 1, Column B Total] by the *sample size* [Table 1, Column A Total].

$$P = \frac{\text{Documented Activities}}{\text{Sample Size}}$$

Step 2. Compute the *standard error of proportion*. Calculate the square root of the *variance* [e.g. $P(1-P)$] divided by the *sample size minus one*.

$$\text{Standard Error of Proportion} = \sqrt{\frac{(P) \times (1-P)}{\text{Sample Size} - 1}}$$

Step 3. Compute the *relative error*. Divide the *standard error of proportion* by the *proportion*.

$$\text{Relative Error} = \frac{\text{Standard Error of Proportion}}{\text{Proportion}}$$

Step 4. Compute the *lower limit* of the estimated compliance performance percentage. Using the T factor of 1.96 [infinite universe] for the required 95% confidence level, (1.645 for the required 90% confidence level for quarterly audits) subtract the *relative error x (times) T* from *P*.

$$P - (\text{Relative Error} \times T)$$

Appendix E to this guide includes completed tables for example purposes. Page E-1 also provides an example of a completed summary table, including the computation of the statistical projection of the lower limit of the compliance performance percentage.

SECTION III

REPORTING

REPORTING PACKAGE

Management Assertion

As required by SSAE No.4, the lender or lender servicer management should provide an assertion to the practitioner. The assertion should be made as a result of management evaluation and determination of a compliance performance percentage of at least 97% pertaining to converting FFELP loans to repayment, collecting delinquent loans, and timely claim filings with the guaranty agency. For quarterly engagements, management's assertion should be changed to reflect the required 97% or higher for 2 consecutive months and performance at 90% or higher for any one month. NOTE: Management must provide the required assertions (97% and 90% respectively as identified above for quarterly engagements) for the fourth quarter, even if the practitioner chooses to include coverage of the fourth quarter activity into their annual (first and subsequent) attestation engagements.

The assertion should be presented in writing in a representation letter or another written communication from the lender or lender servicer. The written assertion should clearly identify the point in time or the period of time covered. (Appendix B, Example 2 provides an example). **NOTE:** Failure of the lender or lender servicer to furnish a written assertion constitutes a limitation on the performance of the engagement sufficient to require the practitioner to withdraw from the engagement.

Practitioner's Reporting Package

The practitioner's reporting package should be submitted to the lender or lender servicer's governing body (for example, Board of Directors) and/or President, as appropriate. The report cover should clearly indicate the period covered by the report. **[NOTE: If the subsequent annual compliance engagement (required after receiving designation) includes coverage of fourth quarter activity, practitioners are to compute and report a compliance performance percentage for the fourth quarter. The reporting however, should be made as part of the annual engagement report. See Management Assertion Section in part II of this guide].**

The following comprise the practitioner's reporting package. Examples are found in Appendix B.

1. A report based on an agreed-upon procedures attestation engagement on the lender's assertion identified in Section II (Appendix B, Example 1).
2. Summary Schedule of Required and Documented Due Diligence Activity (page H-1); Table 1 (page H-2); Table 2 (page H-3); and Table 3 (page H-14). (NOTE: The supporting Tables on pages H-4 through H-13 are provided as worksheets for practitioners and should be completed and retained in the working papers)

3. If a separate report on illegal acts which could result in criminal prosecution was submitted in accordance with the instructions in Section I of this guide, it should be included as part of the reporting package.
4. Schedule of Findings (Appendix B, Example 3). The practitioner should prepare this schedule if noncompliance is identified during this agreed upon procedures engagement.
5. Information Sheet (Appendix B, Example 4). The practitioner should complete and submit an information sheet containing the following:
 - A. Complete address and telephone number of Accounting Firm
 - B. Name of Partner In Charge of Audit

LENDER/LENDER SERVICER SUBMISSION PACKAGE

To Receive Designation

A lender or lender servicer must submit to the Secretary:

1. A written request for designation for EP which includes:
 - (1) An applicant's name and address;
 - (2) Contact Person;
 - (3) Lender or Lender Servicer ED identification number, if applicable;
 - (4) Name and address of applicable guarantors; and
 - (5) A copy of an annual financial audit, or:

A lender, may submit a copy of an annual audit required under 34 CFR 682.305(c), if the audit period ends no more than 3 months prior to the date the lender submits its request for designation. (NOTE: The 1995 Lender Audit Guide noted that the first required audits were to cover the lender fiscal year which started after July 23, 1992).

A servicer may submit a copy of an annual financial audit required under 34 CFR 682.416(e), if the audit period ends no more than 3 months prior to the date the servicer submits its request for designation. NOTE: Until such time as the third-party servicer audit guide is developed, servicers may submit an independent financial audit conducted by the organization for its own business purposes, if such exists, or an audit of its work conducted for its lenders to comply with the requirement of 34 CFR 682.305(c), if that audit encompassed a review of the servicer's entire portfolio.

2. If the applicant is a servicer, a statement signed by the owner or chief executive officer of the applicant certifying that the applicant meets the definition of a servicer contained in 34 CFR 682.415(d)(3).

3. A complete copy of the *Practitioner's Reporting Package* (See Practitioner's Reporting Package section). This reporting package should be retained by the lender or lender servicer for a period of five years, unless notified by ED to retain for a longer period.

An EP application will not be considered complete for the Secretary to act on until all required submissions as identified above are submitted to:

Guarantor and Lender Oversight Staff
600 Independence Ave., S.W.
ROB-3, Room 4624
Washington, D.C. 20202-5138

The Secretary will notify the lender or lender servicer within 60 days of its receipt of the request for EP designation, which includes the required items identified above.

Copies of all required application information as set forth above, should also be sent to each appropriate guaranty agency as set forth in 34 CFR § 682.415(a)(4).

Subsequent Quarterly Compliance Engagements

A lender or lender servicer must submit to the Secretary and to the appropriate guaranty agencies within 3 months following the end of each of the 3 quarters:

1. A letter which includes:
 - (1) An applicant's name and address;
 - (2) Contact Person;
 - (3) Lender or Lender Servicer ED identification number, if applicable;
 - (4) Name and address of applicable guarantors
2. A complete copy of the *Practitioner's Reporting Package* (See Practitioner's Reporting Package section) covering the quarterly engagement. This reporting package should be retained by the lender or lender servicer for a period of five years, unless notified by ED to retain for a longer period.

Subsequent Annual Compliance Engagements

A lender or lender servicer must submit to the Secretary and to the appropriate guaranty agencies within 3 months following the end of each annual period:

1. A letter which includes:

- (1) An applicant's name and address;
 - (2) Contact Person;
 - (3) Lender or Lender Servicer ED identification number, if applicable;
 - (4) Name and address of applicable guarantors
2. A complete copy of the *Practitioner's Reporting Package* (See Practitioner's Reporting Package section) covering the subsequent annual engagement. This reporting package should be retained by the lender or lender servicer for a period of five years, unless notified by ED to retain for a longer period.

OIG TECHNICAL ASSISTANCE CONTACT POINT FOR GUIDE

Please write, fax, or E-Mail (Internet) all questions concerning the EP Agreed-Upon Procedures Guide to the following address and/or telephone number. In contacting this office, make sure that you provide the name, address, and telephone and fax number of the person requesting assistance so that prompt and timely assistance can be provided.

Regional Inspector General for Audit
Department of Education/OIG
10220 N. Executive Hills Blvd, 2nd Floor
Kansas City, Missouri 64153
Attn: Terry Livingston

Fax: (816) 891-0815

E-Mail: TERRY_LIVINGSTON@ED.GOV

You can also send an E-Mail message to Terry Livingston from the ED/OIG Non-Federal Audit Team Home Page on the Internet at the following URL:

<http://home.gvi.net/~edoig>.

:

ILLUSTRATIVE

**REPORT ON APPLYING AGREED-UPON PROCEDURES
ATTESTATION ENGAGEMENT²**

Independent Accountants' Report

To [Lender or Lender Servicer]

We have performed the procedures enumerated below, and as set forth in more detail in the Agreed-Upon Procedures Guide, Exceptional Performance Status For Federal Family Education Loan Program (FFELP) Participating Lenders and Lender Servicers (guide), issued in 1997 by the U.S. Department of Education, Office of Inspector General. Those procedures which were agreed to by the [insert *Lender or Lender servicer* name] and the U.S. Department of Education was performed solely to assist the U.S. Department of Education in evaluating management's assertion about [insert *Lender or Lender servicer* name] compliance performance percentage during the period [insert period of management's assertion] included in the accompanying [title of management report]. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of those procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the guide either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures included our computation of a compliance performance percentage in accordance with the instructions in the guide for converting FFELP loans to repayment status, collecting delinquent loans, and timely claim filings with the guaranty agencies. Our computation is based solely on a statistical sample selection of (insert # of loans sampled) loans in accordance with the sample size requirements specified in the guide, that were serviced during the period for which management assertion is being made. Based on our sample, we computed a compliance performance percentage of [insert *compliance percentage*] %. (NOTE: For Quarterly Engagements, the preceding sentence should be revised to "Based on our samples, we computed that the compliance performance percentage was at least [insert *compliance percentage*] % for two consecutive months, and [insert *compliance percentage*] % for any one month.) A more detailed breakout of our compliance

² This is an illustration of an agreed-upon procedures report on management's assertion about an entity's compliance with specified requirements as set forth in Statement on Standards for Attestation Engagements, Agreed-Upon Procedures Engagements, Appendix B, Paragraph 24, issued in September 1995.

percentage computation is provided as Attachment [insert Attachment #] (The Summary Schedule and Tables 1-3 should be provided as the Attachment).

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of [insert *Lender or Lender servicer* name] management and the U.S. Department of Education, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

[Firm Signature]

[Date]

ILLUSTRATIVE

**REPRESENTATION LETTER TO PRACTITIONER INCLUDING
MANAGEMENT'S ASSERTION ON COMPLIANCE
WITH REQUIREMENTS IN SUPPORT OF
EXCEPTIONAL PERFORMANCE STATUS¹**

To [insert name of practitioner]:

We [insert Lender or Lender Servicer name] are responsible for complying with the requirements pertaining to converting loans to repayment status, collecting delinquent loans, and timely filing requirements with the guaranty agency, and we are responsible for establishing and maintaining an effective internal control structure over compliance. We have performed an evaluation of our compliance with the aforementioned requirements. Our evaluation covered the period from/to [*insert period covered by the evaluation*]. Based on our evaluation, we determined an overall compliance performance percentage of at least 97 percent pertaining to these requirements. (NOTE: For Quarterly Engagements, the preceding sentence should be revised as follows: "Based on our evaluation, we determined an overall compliance performance percentage of at least [insert compliance percentage] % for two consecutive months, and [*insert compliance percentage*] % for any one month pertaining to these requirements.") We have disclosed all known noncompliance items and have made available all documentation related to compliance with the aforementioned requirements.

[Optional paragraph if applicable (ref. SSAE No.4, par. 40)]

We have also disclosed all known matters contradicting the assertion. We have also disclosed any communications from the U.S. Department of Education, our internal auditors, and other practitioners concerning possible noncompliance with the aforementioned compliance requirements, including any communications received after the period identified above and the date of this letter. The following are our interpretations of compliance requirements that may be subject to varying interpretation: [List interpretations]

We have also disclosed all known noncompliance, if applicable, occurring subsequent to the period identified above.

[Insert Management Official Name]
[Insert Lender/Servicer Name]

¹ The required elements of management's representations are listed in paragraph 70 of SSAE No.3 and paragraph 40 of SSAE No.4.

[Insert Date]

**APPENDIX B
EXAMPLE 3**

ILLUSTRATIVE

SCHEDULE OF FINDINGS

The Schedule of Findings should include the information outlined below, where applicable. *Government Auditing Standards* states that well-developed findings generally consist of the following attributes:

1. Statement of condition - the nature of the deficiencies (e.g., a regulation not being followed).
2. Criteria - what the entity should be doing (e.g., the specific regulation, etc.).
3. Effect - what happened as a result of the condition.
4. Cause - why the condition exists (if known by the practitioner).
5. Recommendation - what the entity should do to correct the condition; normally addresses the cause

The practitioner should attempt to identify the condition, criteria, and effect. However, since this agreed-upon procedures engagement is not requiring a review of the lender or lender servicer's internal control structure, the practitioner is not required to identify cause nor provide specific recommendations for improvement.

ILLUSTRATIVE

AUDITOR INFORMATION SHEET

Audit Firm: ABC Auditing Co
232 South Hickory
Suite 202
Kansas City, MO 64151

Tel No.: (816) XXX-XXXX
Fax No.: (816) XXX-XXXX

Partner in Charge: Thomas Jefferson

DEFINITIONS

[NOTE: The following definitions are listed for convenience and are the current definitions unless indicated otherwise. Some of the definitions applicable to collection activity in accordance with the November 10, 1986 regulations are slightly different. Please refer to the specific citation for clarification.]

Collection activity

For purposes of this section, the term "collection activity" with respect to a loan means:

(1) Mailing or otherwise transmitting to the borrower at an address that the lender reasonably believes to be the borrower's current address a collection letter or final demand letter that satisfies the timing and content requirements of paragraphs (c), (d), or (e) of 34 CFR 682.411;

(2) Making an attempt to contact the borrower by telephone to urge the borrower to begin or resume repayment;

(3) Conducting skip-tracing efforts, in accordance with paragraph (g) of 34 CFR 682.411, to locate an endorser, relative, or reference in addition to the borrower who is unknown to the lender by written contact and telephone;

(4) Mailing or otherwise transmitting to the guaranty agency a request for preclaims assistance available from the agency on the loan at the time the request is transmitted; or

(5) Any telephone discussion or personal contact with the borrower so long as the borrower is apprised of the account's past-due status. [34 CFR § 682.411(k)];

Default

The failure of a borrower and endorser, if any, or joint borrowers on a PLUS or Consolidation loan, to make an installment payment when due, or to meet other terms of the promissory note, if the Secretary or guaranty agency finds it reasonable to conclude that the borrower and endorser, if any, no longer intend to honor the obligation to repay, provided that this failure persists for:

- (1) 180 days for a loan repayable in monthly installments, or
- (2) 240 days for a loan repayable in less frequent installments [34 CFR § 682.200]

{This definition is the same as the November 1986 definition with one exception; the 1986 definition does not reference the endorsers and joint borrowers on PLUS loans (e.g., not applicable)}

Diligent Effort for Telephone Contact

(1) For purposes of this section, the term "diligent effort" with respect to telephone contact means:

(i) A successful effort to contact the borrower by telephone;

(ii) At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's correct telephone number (a busy signal should be considered as an attempt); or

(iii) An unsuccessful effort to ascertain the correct telephone number of a borrower, including, but not limited to, a directory assistance inquiry as to the borrower's telephone number, and a diligent effort to contact each reference, relative, and individual identified in the most recent loan application for that borrower held by the lender. The lender may contact a school official other than the financial aid administrator who reasonably may be expected to know the borrower's address.

(2) If the lender is unable to ascertain the borrower's correct telephone number despite its performance of the activities described in paragraph (1)(1)(iii) of 34 CFR 682.411, the lender is excused thereafter from attempting to contact the borrower by telephone unless it receives a communication indicating the borrower's current address before the 120th day of delinquency (the 150th day for loans repayable in installments less frequent than monthly).

(3) The activities specified by paragraphs (1)(1)(i) or (ii) of 34 CFR 682.411 (with references to "the borrower" understood to mean endorser, reference, relative or individual as appropriate), meet the requirement that the lender make a diligent effort to contact each endorser or each reference, relative or individual identified on the borrower's most recent loan application. [34 CFR § 682.411(1)]

Due Diligence Requirements

Means the activities required to be performed by lenders or lender servicers on delinquent loans pursuant to § 682.411(c) through (h) and (m), if applicable. [34 CFR § 682.415(d)]

Eligible Loan

Means a loan made, insured, or guaranteed under part B of title IV of the Act. [34 CFR § 682.415(d)]

Lender

The term "eligible lender" is defined in section 435(d) of the Higher Education Act of 1965, as amended, as follows:

(d) ELIGIBLE LENDER.--

(1) IN GENERAL.- Except as provided in paragraphs (2) through (5), the term "eligible lender" means--

(A) a National or State chartered bank, a mutual savings bank, a savings and loan association, a stock savings bank, or a credit union which--

(i) is subject to examination and supervision by an agency of the United States or of the State in which its principal place of operation is established, and

(ii) does not have as its primary consumer credit function the making or holding of loans made to students under this part unless (I) it is a bank which is wholly owned by a State, or a bank which is subject to examination and supervision by an agency of the United States, makes student loans as a trustee pursuant to an express trust, operated as a lender under this part prior to January 1, 1975, and which meets the requirements of this provision prior to the enactment of the Higher Education Amendments of 1992, or (II) it is a single wholly owned subsidiary of a bank holding company which does not have as its primary consumer credit function the making or holding of loans made to students under this part;

(B) a pension fund as defined in the Employee Retirement Income Security Act;

(C) an insurance company which is subject to examination and supervision by an agency of the United States or a State;

(D) in any State, a single agency of the State or a single nonprofit private agency designated by the State;

(E) an eligible institution which meets the requirements of paragraphs (2) through (5) of this subsection;

(F) for purposes only of purchasing and holding loans made by other lenders under this part, the Student Loan Marketing Association or an agency of any State functioning as a secondary market;

(G) for purposes of making loans under sections 428A(d), 428B(d), 428C, and 439(q), the Student Loan Marketing Association;

(H) for purposes of making loans under section 428(h) and 428(j), a guaranty agency;

(I) a Rural Rehabilitation Corporation, or its successor agency, which has received Federal funds under Public Law 499, Eighty-first Congress (64 Stat.98 (1950)); and

(J) for purpose of making loans under section 428C, any nonprofit private agency functioning in any State as a secondary market. **[34 CFR § 682.200]**

{For 1986 purposes an eligible lender is defined in section 435(g) of the Higher Education Act of 1965, as amended}

State

Each State of the Union, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and the Virgin Islands. **[34 CFR § 600.2]** {This definition is also applicable to 1986 requirements.}

Servicer

An entity that services and collects student loans and that--

(i) Has substantial experience in servicing and collecting consumer loans or student loans;

(ii) Has an annual independent financial audit that is furnished to the Secretary and any other parties designated by the Secretary;

(iii) Has business systems capable of meeting the requirements of part B of title IV of the Act and applicable regulations;

(iv) Has adequate personnel knowledgeable about the student loan program authorized by part B of title IV of the Act; and

(v) Does not knowingly have any owner, majority shareholder, director, or officer of the entity who has been convicted of a felony. **[34 CFR § 682.415(d)]**

Transfer

For purposes of 34 CFR 682.411, the term "transfer" with respect to a loan means any action, including, but not limited to, the sale of the loan, that results in a change in the system used to monitor or conduct collection activity on a loan from one system to another. **[34 CFR § 682.411 (j)]**

DUE DILIGENCE REQUIREMENTS

Exemptions to Required Telephone Contacts:

A lender need not attempt to contact by telephone any borrower

- (i) Who is incarcerated;
- (ii) Who is residing outside of a State¹, Mexico or Canada;
- (iii) Whose telephone number is unknown;
- (iv) Who is more than 120 days delinquent (180 days delinquent for a loan repayable in installments less frequent than monthly) following the lender's receipt of
 - (A) A payment on the loan;
 - (B) A correct address for the borrower;
 - (C) A dishonored check received from the drawee as a payment on the loan; or
 - (D) The expiration of an authorized deferment or forbearance. [34 CFR § 682.411 (d(4))]

Telephone Number Not Available

Collection procedures when a borrower's telephone number is not available. Upon completion of a diligent but unsuccessful effort to ascertain the correct telephone number of a borrower as required under compliance requirement "H" in Section II, the lender is excused from any further efforts to contact the borrower by telephone during the delinquency period in which the unsuccessful effort was made, unless the borrower's number is obtained before the 120th day of delinquency (the 150th day for loans payable repayable in installments less frequent than monthly). [34 CFR § 682.411 (f)]

¹ As defined in Appendix C.

**SCHEDULE OF REQUIRED & DOCUMENTED DUE DILIGENCE
(EXAMPLE SUMMARY TABLE)**

| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|---|--------------------------------|----------------------------------|
| 1. Conversion of Loans to Repayment | 250 | 248 |
| 2. Collection of Delinquent/Defaulted Loans | 1,427 | 1,374 |
| 3. Timely Claim Filings with Guaranty Agency | 15 | 13 |
| TOTAL COMPLIANCE ACTIONS (SECTIONS 1, 2 & 3) | 1,692 | 1,635 |

Example Computation of Compliance Performance Percentage

Sample Size = 1,692
 P = .9663120567376 (1,635 / 1,692)
 1-P = .03368794326241 (1 - .9663120567376)

Standard Error of Proportion = $\sqrt{\frac{(.9663120567376) \times (.03368794326241)}{1,691}}$
 or

Standard Error of Proportion = 0.004387570863776

Relative Error = $\frac{0.004387570863776}{.9663120567376}$

or

Relative Error = 0.004540532049853

Lower Limit of Compliance % = P - (0.004540532049853 x 1.96¹)
 at 95% Confidence Level

or = .9574126139199

Thus, for this example, the practitioner should be 95% confident that the lower limit of the lender's or lender servicer's compliance performance percentage is not below .9574126139199. However, this lower limit is below the required 97% minimum compliance performance requirement. Thus, this lender or lender servicer would not meet the minimum requirement for designation as EP.

¹ For quarterly engagements, practitioners should use 1.645, the T factor for the required 90% confidence level.

**1. CONVERSION OF LOANS TO REPAYMENT
(EXAMPLE TABLE 1)**

| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|--|--------------------------------|---------------------------------------|
| A. Consolidated Loans | | |
| 1. Repayment Period Begin Date | 25 | 24 |
| 2. First Payment Due Date | 25 | 25 |
| B. PLUS Loans | | |
| 1. Repayment Period Begin Date | 25 | 25 |
| 2. First Payment Due Date | 25 | 24 |
| C. SLS Loans | | |
| 1. Repayment Period Begin Date | 25 | 24 |
| 2. First Payment Due Date | 25 | 25 |
| D. Stafford Loans | | |
| 1. Repayment Period Begin Date | 50 | 50 |
| 2. First Payment Due Date | 50 | 50 |
| TOTAL COMPLIANCE ACTIONS (SECTIONS 1) | 250 | 248 |

NOTE: This example does not have all items entered that would normally be completed on this engagement.

**2. COLLECTION OF DELINQUENT LOANS
(EXAMPLE TABLE 2)**

| (1986 REGULATIONS) | # OF LOANS | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|---|--------------------|------------------------|--------------------------|
| A. 1 - 30 Days Delinquent. Written Notices (Table 2A) | 336 | 672 | 645 |
| B. 31-60 Days Delinquent 1. Telephone Efforts (Table 2B1) 2. Collection Letters (Table 2B2) | 25 3 | 25 6 | 24 5 |
| C. 61-150 Days Delinquent 1. Telephone Efforts (Table 2C1) 2. Collection Letters (Table 2C2) | 13 6 | 21 18 | 21 17 |
| D. 151-180 Days Delinquent 1. Final Demand Ltr. (Table 2D) | 6 | 6 | 6 |
| E. Skip Tracing | 5 | 5 | 5 |
| F. Preclaims Assistance | 50 | 50 | 48 |
| (1992 REGULATIONS) | | | |
| G. 1 - 10 Days Delinquent. Written Notices (Table 2G) | 100 | 100 | 98 |
| H. 11-180 Days Delinquent 1. Telephone Efforts (Table 2H1) 2. Collection Letters (Table 2H2) 3. Section I (Table 2H3) 4. Section II (Table 2H3) | 40 40 7 3 | 160 160 14 3 | 150 158 13 3 |
| I. 151 Days or Greater (Final Demand Ltrs) | 10 | 10 | 10 |
| J. Skip Tracing | 3 | 12 | 12 |
| K. Loan Endorser (PLUS Loans Only) 1. Tel./Letters (Table 2K1) 2. Skip Tracing (Table 2K2) | 20 5 | 60 5 | 59 5 |
| L. Preclaims Assistance | 100 | 100 | 99 |
| TOTAL ACTIONS (A THROUGH L) | | 1427 | 1374 |

1986 Regulations

1-30 Days Delinquent (336 Loans in Sample)

Written Notices/Collection Letters EXAMPLE TABLE 2A

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|-------------------------|---------------------------------------|
| Loan #1 | | 2 |
| Loan #2 | | 2 |
| Loan #3 | | 1 |
| etc. | | 640 |
| Total | 672 ² | 645 |

¹ For each loan enter the number of letters documented, not to exceed "2" [e.g. the number of required letters].

² Multiply 2 times the number of loans in this category.

1986 Regulations

31-60 Days Delinquent (25 Loans in Sample)

Telephone Efforts EXAMPLE TABLE 2B1

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 1 |
| Loan #2 | | |
| Loan #3 | | 1 |
| etc. | | 22 |
| Total | 25² | 24 |

If Unable to Reach Borrower: (3 Loans in Sample)

Collection Letters EXAMPLE TABLE 2B2

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ³ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 2 |
| Loan #2 | | 2 |
| Loan #3 | | 1 |
| Total | 6⁴ | 5 |

¹ Enter a "1" for each loan in which the required diligent effort was documented (see definition of diligent effort).

² Enter the number of loans included in this category.

³ For each loan enter the number of letters documented, not to exceed "2" [e.g. the number required].

⁴ Multiply 2 times the number of loans in this category.

1986 Regulations

61-150 Days Delinquent (13 Loans in Sample)

Telephone Efforts EXAMPLE TABLE 2C1

| Sampled Loans | COLUMN A (REQUIRED) ¹ | COLUMN B (DOCUMENTED) ² |
|---------------|-------------------------------------|---------------------------------------|
| Loan #1 | 2 | 2 |
| Loan #2 | 3 | 3 |
| Loan #3 | 1 | 1 |
| etc. | 15 | 15 |
| Total | 21 | 21 |

**If Unable to Reach Borrower:
(6 Loans in Sample)**

Collection Letters EXAMPLE TABLE 2C2

| Sampled Loans | COLUMN A (REQUIRED) ¹ | COLUMN B (DOCUMENTED) ² |
|---------------|-------------------------------------|---------------------------------------|
| Loan #1 | 1 | 1 |
| Loan #2 | 3 | 2 |
| Loan #3 | 2 | 2 |
| etc. | 12 | 12 |
| Total | 18 | 17 |

¹ For each loan enter the number of diligent efforts (at least "1" for each 30-day period the loan was delinquent from 61-150 days), not to exceed a total of "3" for each loan.

² For each loan, enter the total number of diligent efforts documented (for each 30-day period the loan was delinquent from 61-150 days), not to exceed "1" for each period and not to exceed "3" for each loan.

**1986 Regulations
151-180 Days Delinquent
(6 Loans in Sample)
Final Demand Letter
EXAMPLE TABLE 2D**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 3 |
| Total | 6² | 6 |

**Skip Tracing Procedures
(5 Loans in Sample)
EXAMPLE TABLE 2E**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ³ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 2 |
| Total | 5⁴ | 5 |

¹ For each loan enter a "1" if the records document that a Final Demand Letter was sent to the borrower (do not exceed "1" for each loan).

² Enter the number of loans in this category.

³ For each loan enter a "1" if the required skip tracing procedure was documented (do not exceed "1" for each loan).

⁴ Enter the number of loans where skip tracing procedures should have been performed.

1986 Regulations

Preclaims Assistance (50 Loans in Sample) EXAMPLE TABLE 2F

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ₁ |
|---------------|------------------------|--|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 45 |
| Total | 50 ² | 48 |

¹ For each loan enter a "1" if the required preclaims assistance was documented (do not exceed "1" for each loan).

² Enter the number of loans where preclaims assistance should have been performed.

1992 REGULATIONS

1-10 Days Delinquent (100 Loans in sample)

Collection Letters
EXAMPLE TABLE 2G

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 95 |
| Total | 100² | 98 |

¹ For each loan enter a "1" if the records document that the required written notice or collection letter was sent to the borrower (do not exceed "1" for each loan).

² Enter the number of loans where required written notices or collection letters should have been sent.

1992 REGULATIONS

11-180 Days Delinquent (11-240 days) (40 Loans in sample)

Telephone Efforts (EXAMPLE TABLE 2H1)

| Sampled Loans | 1 Effort Before 90 days | | 1 Effort After 90 days | | Other Efforts | | TOTAL | |
|---------------|-------------------------|-------------|------------------------|-------------|------------------------|-------------|-------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | 1 | | 1 | | 2 | | 4 |
| Loan #2 | | 0 | | 1 | | 2 | | 3 |
| Loan #3 | | 1 | | 0 | | 1 | | 2 |
| etc. | | 36 | | 34 | | 71 | | 141 |
| Total | 40 ¹ | 38 | 40 ¹ | 36 | 80 ² | 76 | 160 | 150 |

Collection Letters (EXAMPLE TABLE 2H2)

| Sampled Loans | At least 2 letters contain warning | | Other Letters | | TOTAL | |
|---------------|------------------------------------|-------------|------------------------|-------------|-------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | 2 | | 2 | | 4 |
| Loan #2 | | 2 | | 2 | | 4 |
| Loan #3 | | 2 | | 2 | | 4 |
| etc. | | 74 | | 72 | | 146 |
| Total | 80 ² | 80 | 80 ² | 78 | 160 | 158 |

¹ 1 * (multiplied by) the number of sampled loans in this category.

² 2 * (multiplied by) the number of sampled loans in this category.

1992 Regulations

If lender received loan payment, address correction, dishonored check, borrower's telephone number, or notification of expired forbearance or deferment, only the following is required:

(10 Loans in sample)

(EXAMPLE TABLE 2H3)

| | |
|---|---|
| Section I Less than 91 (121) ¹ Days Delinquent | Section II 91-120 (121-180) ¹ Days Delinquent |
|---|---|

| (7 Loans in Sample) | | (3 Loans in Sample) | | |
|---------------------|------------------------------|---------------------|-----------------------------|-------------|
| Sampled Loans | 2 Diligent Telephone Efforts | | 1 Diligent Telephone Effort | |
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | 2 | | 1 |
| Loan #2 | | 2 | | 1 |
| Loan #3 | | 1 | | 1 |
| etc. | | 8 | | 0 |
| Total | 14² | 13 | 3³ | 3 |

Note: For loans over 91 (121) days delinquent [e.g. Section II], there will usually be corresponding entries for the loan in Section I, however because of dishonored checks and rolling delinquencies, the borrowers status could jump to the more advanced stage (Section II) of delinquency without Section I delinquency applying.

¹ If the payments are made less frequently than monthly

² * (multiplied by) the number of sampled loans in this category.

³ 1 * (multiplied by) the number of sampled loans in this category.

1992 Regulations

**Final Demand Letter
151 Days or Greater
(10 Loans in Sample)**

EXAMPLE TABLE 2I

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | 1 | 1 |
| Loan #2 | 1 | 1 |
| Loan #3 | 1 | 1 |
| etc. | 7 | 7 |
| Total | 10 | 10 |

**Skip Tracing Procedures
(12 Loans in Sample)**

EXAMPLE TABLE 2J

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ² |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 9 |
| Total | 12³ | 12 |

¹ For each loan enter the number of Final Demand Letters that the records document were sent to the borrower (do not 1 for each loan).

² For each loan, enter a 1 in Column B if both skip tracing requirements included in Step 2 were met. Otherwise, enter a 0.

³ Enter the number of loans where skip tracing procedures should have been performed.

1992 Regulations

1-180 Days Delinquent

Loan Endorser Due Diligence Requirements

(EXAMPLE TABLE 2K1)

| Sampled Loans | 1 Tel. Effort | | 1 Letter with warning | | 1 addtl ltr | | Final Demand Ltr | | Grand Total | |
|---------------|-----------------|-------------|-----------------------|-------------|-----------------|-------------|------------------|-------------|-------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | 1 | | 1 | | 1 | | 1 | | 4 |
| Loan #2 | | 1 | | | | 1 | | 1 | | 3 |
| Loan #3 | | 1 | | 1 | | 1 | | 1 | | 4 |
| etc. | | 12 | | 12 | | 12 | | 12 | | 48 |
| Total | 15 ¹ | 15 | 15 ¹ | 14 | 15 ¹ | 15 | 15 ¹ | 15 | 60 | 59 |

**Skip Tracing Procedures
(EXAMPLE TABLE 2K2)**

| Sampled Loans where Final Demand Letter not sent | Upon lender's receipt of info. that endorser's address or phone # unknown, skip tracing includes at least 1 directory assistance inquiry | |
|--|--|-----------------------|
| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 2 |
| Total | 5 ¹ | 5 |

¹ 1 * (multiplied by) the number of loans sampled in this category.

1992 Regulations

Preclaims Assistance (100 Loans in Sample)

EXAMPLE TABLE 2L

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| Loan #3 | | 1 |
| etc. | | 96 |
| Total | 100² | 99 |

¹ For each loan enter a "1" if the required preclaims assistance was documented (do not exceed "1" for each loan).

² Enter the number of loans where preclaims assistance should have been performed.

**3. TIMELY CLAIM FILINGS WITH GUARANTY AGENCY
(EXAMPLE TABLE 3)**

| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|---|--------------------------------|-----------------------------------|
| A. Death, Disability, Bankruptcy Closed School & False Certif. | 2 | 1 |
| B. Default Claims | 13 | 12 |
| Total | 15 | 13 |

**Death, Disability, Bankruptcy
Closed School & False Certification Claims
(EXAMPLE TABLE 3A)**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED)¹ |
|--------------------------|--------------------------------|--|
| Loan #1 | | 1 |
| etc. | | 0 |
| Total | 2 ² | 1 |

**Default Claims
(EXAMPLE TABLE 3B)**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED)¹ |
|--------------------------|--------------------------------|--|
| Loan #1 | | 1 |
| Loan #2 | | 1 |
| etc. | | 10 |
| Total | 13 ² | 12 |

¹ Enter a "1" for each loan in which the timely claim filing was documented.

² Enter the number of loans included in this category.

**NOTIFICATION TO SUBMITTERS OF CONFIDENTIAL
COMMERCIAL INFORMATION**

You have or may be asked to submit to the Office of Inspector General (OIG), U.S. Department of Education, information in connection with an investigation, audit, inspection or other inquiry pursuant to the Inspector General Act of 1978, as amended, 5 U.S.C. app. 3, sec. 101 et seq. This is to notify you that if you deem any of this information to be "confidential commercial information," you may take steps to so designate that information to protect its confidentiality if at a future point in time a request is made for disclosure of this information under the Freedom of Information Act (FOIA).

"Confidential commercial information" means records that may contain material exempt from release under Exemption 4 of the FOIA (pertaining to trade secrets and commercial or financial information that is privileged or confidential), because disclosure could reasonably be expected to cause substantial competitive harm.

You may use any reasonable method you believe appropriate and which is acceptable to the OIG to indicate which documents and information you deem to fall into the category of confidential commercial information. Please be as specific as possible in segregating the information that you consider to be "confidential commercial information" from any other information you are providing to the OIG. This may be done before such information is provided to the OIG if feasible, but only if it will not delay or interfere with production of the information or delay or interfere with the OIG's investigation, audit, inspection or other inquiry. Otherwise, you may so designate this information within a reasonable period of time after the information is provided to the OIG.

If an FOIA request is received by the OIG for information you have designated as confidential commercial information, the OIG is nevertheless required by law to make its own independent determination of whether the FOIA requires disclosure of the information or whether it should be withheld pursuant to Exemption (b)(4) or any other exemption of the FOIA. If the OIG determines that it may be required to disclose pursuant to the FOIA that information you have designated or other information that the OIG has reason to believe could reasonably be expected to cause substantial competitive harm, to the extent permitted by law, we will make a good faith effort to notify you and provide you with a reasonable opportunity to object to such disclosure and to state all grounds upon which you oppose disclosure. We will give careful consideration to all specified grounds for nondisclosure prior to making our final decision.

If we nonetheless believe that disclosure is required, we will provide you with a statement explaining why your objections were not sustained and specifying a disclosure date. To the extent permitted by law, this statement will be provided to you in a reasonable number of days prior to the specified disclosure date. Furthermore, if disclosure of the designated information is denied pursuant to an exemption under the FOIA and an administrative or judicial appeal is taken by the FOIA requester, we will make a good faith effort to notify you promptly.

The procedures outlined in this notice are intended only to improve the internal management of the OIG and are not intended to create any right or benefit, substantive or procedural, enforceable at law by a party against the United States, its agencies, its officers, or any person.

TABLE 1 **
 Statistical Sample sizes for compliance Testing
 Five Percent Risk of Over reliance
 (with number of expected errors in parentheses)
Tolerable Rate

**Expected
 Population
 Deviation**

| Rate | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 15% | 20% |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|
| 0.0% | 149(0) | 99(0) | 74(0) | 59(0) | 49(0) | 42(0) | 36(0) | 32(0) | 29(0) | 19(0) | 14(0) |
| 0.25% | 236(1) | 157(1) | 117(1) | 93(1) | 78(1) | 66(1) | 58(1) | 51(1) | 46(1) | 30(1) | 22(1) |
| 0.50% | * | 157(1) | 117(1) | 93(1) | 78(1) | 66(1) | 58(1) | 51(1) | 46(1) | 30(1) | 22(1) |
| 0.75% | * | 208(2) | 117(1) | 93(1) | 78(1) | 66(1) | 58(1) | 51(1) | 46(1) | 30(1) | 22(1) |
| 1.00% | * | 257(3) | 156(2) | 93(1) | 78(1) | 66(1) | 58(1) | 51(1) | 46(1) | 30(1) | 22(1) |
| 1.25% | * | 303(4) | 156(2) | 124(2) | 78(1) | 66(1) | 58(1) | 51(1) | 46(1) | 30(1) | 22(1) |
| 1.50% | * | 392(6) | 192(3) | 124(2) | 103(2) | 66(1) | 58(1) | 51(1) | 46(1) | 30(1) | 22(1) |
| 1.75% | * | 604(11) | 227(4) | 153(3) | 103(2) | 88(2) | 77(2) | 51(1) | 46(1) | 30(1) | 22(1) |
| 2.00% | * | 846(17) | * | 181(4) | 127(3) | 88(2) | 77(2) | 68(2) | 46(1) | 30(1) | 22(1) |
| 2.25% | * | 1,692(38) | * | 208(5) | 127(3) | 88(2) | 77(2) | 68(2) | 61(2) | 30(1) | 22(1) |
| 2.50% | * | * | * | * | 160(4) | 109(3) | 77(2) | 68(2) | 61(2) | 30(1) | 22(1) |
| 2.75% | * | * | * | * | 173(5) | 109(3) | 95(3) | 68(2) | 61(2) | 30(1) | 22(1) |
| 3.00% | * | * | * | * | 195(6) | 129(4) | 95(3) | 84(3) | 61(2) | 30(1) | 22(1) |
| 3.25% | * | * | * | * | * | 148(5) | 112(4) | 84(3) | 61(2) | 30(1) | 22(1) |
| 3.50% | * | * | * | * | * | 167(6) | 112(4) | 84(3) | 76(3) | 40(2) | 22(1) |
| 3.75% | * | * | * | * | * | 185(7) | 129(5) | 100(4) | 76(3) | 40(2) | 22(1) |
| 4.00% | * | * | * | * | * | * | 146(6) | 100(4) | 89(4) | 40(2) | 22(1) |
| 5.00% | * | * | * | * | * | * | * | 158(8) | 116(6) | 40(2) | 30(2) |
| 6.00% | * | * | * | * | * | * | * | * | 179(11) | 50(3) | 30(2) |
| 7.00% | * | * | * | * | * | * | * | * | * | 68(5) | 37(3) |

* Sample size is too large to be cost effective for most audit applications.

** Reference sources is the AICPA Audit Sampling Guide.

TABLE 2 **

**Statistical Sample sizes for compliance Testing
Ten Percent Risk of Over reliance
(with number of expected errors in parentheses)**

| Expected Pop. Deviation Rate | Tolerable Rate | | | | | | | | | | |
|---|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| | <u>2%</u> | <u>3%</u> | <u>4%</u> | <u>5%</u> | <u>6%</u> | <u>7%</u> | <u>8%</u> | <u>9%</u> | <u>10%</u> | <u>15%</u> | <u>20%</u> |
| 0.0% | 114(0) | 76(0) | 57(0) | 45(0) | 38(0) | 32(0) | 28(0) | 25(0) | 22(0) | 15(0) | 11(0) |
| 0.25% | 194(1) | 129(1) | 96(1) | 77(1) | 64(1) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 0.50% | 194(1) | 129(1) | 96(1) | 77(1) | 64(1) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 0.75% | 265(2) | 129(1) | 96(1) | 77(1) | 64(1) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 1.00% | 398(4) | 176(2) | 96(1) | 77(1) | 64(1) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 1.25% | 708(9) | 221(3) | 132(2) | 77(1) | 64(1) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 1.50% | 1,463(22) | 265(4) | 132(2) | 105(2) | 64(1) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 1.75% | * | 390(7) | 168(3) | 105(2) | 88(2) | 55(1) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 2.00% | * | 590(12) | 198(4) | 132(3) | 88(2) | 75(2) | 48(1) | 42(1) | 38(1) | 25(1) | 18(1) |
| 2.25% | * | 992(22) | 277(6) | 132(3) | 88(2) | 75(2) | 65(2) | 42(1) | 38(1) | 25(1) | 18(1) |
| 2.50% | * | 2,079(52) | 353(9) | 158(4) | 110(3) | 75(2) | 65(2) | 58(2) | 38(1) | 25(1) | 18(1) |
| 2.75% | * | * | 486(14) | 209(6) | 132(4) | 94(3) | 65(2) | 58(2) | 52(2) | 25(1) | 18(1) |
| 3.00% | * | * | 730(22) | 233(7) | 132(4) | 94(3) | 65(2) | 58(2) | 52(2) | 25(1) | 18(1) |
| 3.25% | * | * | * | * | 153(5) | 113(4) | 82(3) | 58(2) | 52(2) | 25(1) | 18(1) |
| 3.50% | * | * | * | * | 194(7) | 113(4) | 82(3) | 73(3) | 52(2) | 25(1) | 18(1) |
| 3.75% | * | * | * | * | * | 131(5) | 98(4) | 73(3) | 52(2) | 25(1) | 18(1) |
| 4.00% | * | * | * | * | * | 149(6) | 98(4) | 73(3) | 65(3) | 25(1) | 18(1) |
| 5.00% | * | * | * | * | * | * | 160(5) | 115(4) | 78(4) | 34(2) | 18(1) |
| 6.00% | * | * | * | * | * | * | * | 182(11) | 116(7) | 43(3) | 25(2) |
| 7.00% | * | * | * | * | * | * | * | * | 199(14) | 52(4) | 25(2) |

* Sample size is too large to be cost effective for most audit applications.

** Reference sources is the AICPA Audit Sampling Guide.

Summary Table

SUMMARY SCHEDULE OF REQUIRED AND DOCUMENTED DUE DILIGENCE ACTIVITY

| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|---|------------------------|--------------------------|
| 1. Conversion of Loans to Repayment | | |
| 2. Collection of Delinquent/Defaulted Loans | | |
| 3. Timely Filings with Guaranty Agency | | |
| TOTAL COMPLIANCE ACTIONS (SECTIONS 1, 2 & 3) | | |

Computation of Compliance Performance Percentage

$$\begin{aligned}
 \text{Sample Size} &= (\text{Column A Total}) \\
 P &= (\text{Column B Total} / \text{Column A Total}) \\
 1-P &= (1-P \text{ Value})
 \end{aligned}$$

$$\text{Standard Error of Proportion} = \sqrt{\frac{(P) \times (1-P)}{(\text{Column A Total} - 1)}}$$

or

$$\text{Standard Error of Proportion} =$$

$$\text{Relative Error} = \frac{\text{Std Error of Proportion}}{P}$$

or

$$\text{Relative Error} =$$

$$\text{Lower Limit of Compliance \%} = P - (\text{Relative Error} \times 1.96^1)$$

at 95% Confidence Level using Infinite Universe)

or

$$\text{Lower Limit}^2 =$$

¹ For quarterly engagements, the practitioner should use 1.645, the T factor for the required 90% confidence level.

² Lower Limit must be equal to or greater than 97% for Lender or Lender Servicer to be considered an Exceptional Performer

**1. CONVERSION OF LOANS TO REPAYMENT
(EXAMPLE TABLE 1)**

| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|--|--------------------------------|---------------------------------------|
| A. Consolidated Loans | | |
| 1. Repayment Period Begin Date | | |
| 2. First Payment Due Date | | |
| B. PLUS Loans | | |
| 1. Repayment Period Begin Date | | |
| 2. First Payment Due Date | | |
| C. SLS Loans | | |
| 1. Repayment Period Begin Date | | |
| 2. First Payment Due Date | | |
| D. Stafford Loans | | |
| 1. Repayment Period Begin Date | | |
| 2. First Payment Due Date | | |
| TOTAL COMPLIANCE ACTIONS (SECTIONS 1) | | |

2. COLLECTION OF DELINQUENT LOANS

TABLE 2

| (1986 REGULATIONS) | # OF LOANS | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|---|------------|----------------------------------|----------------------------------|
| A. 1 - 30 Days Delinquent. Written Notices (Table 2A) | | | |
| B. 31-60 Days Delinquent 1. Telephone Efforts (Table 2B1) 2. Collection Letters (Table 2B2) | | _____ _____ | _____ _____ |
| C. 61-150 Days Delinquent 1. Telephone Efforts (Table 2C1) 2. Collection Letters (Table 2C2) | | _____ _____ | _____ _____ |
| D. 151-180 Days Delinquent. Final Demand Letter (Table 2D) | | | |
| E. Skip Tracing | | | |
| F. Preclaims Assistance | | | |
| (1992 REGULATIONS) | | | |
| G. 1 - 10 Days Delinquent. Written Notices (Table 2G) | | | |
| H. 11-180 Days Delinquent 1. Telephone Efforts (Table 2H1) 2. Collection Letters (Table 2H2) 3. Section I (Table 2H3) 4. Section II (Table 2H3) | | _____ _____ _____ _____ | _____ _____ _____ _____ |
| I. 151 Days or Greater (Final Demand Ltrs) | | | |
| J. Skip Tracing | | | |
| K. Loan Endorser (PLUS Loans Only) 1. Tel./Letters (Table 2K1) 2. Skip Tracing (Table 2K2) | | _____ _____ | _____ _____ |
| L. Preclaims Assistance | | | |
| TOTAL ACTIONS (SECTIONS 2A & 2B) | | | |

1986 Regulations

1-30 Days Delinquent

Written Notices/Collection Letters

TABLE 2A

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|---------------------|------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | ² | |

¹ For each loan, enter the number of letters documented, not to exceed "2" [e.g. the number of required letters].

² Multiply 2 times the number of loans in this category.

1986 Regulations

31-60 Days Delinquent

Telephone Efforts

TABLE 2B1

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|---------------------|------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | 2 | |

If Unable to Reach Borrower: (3 Loans in Sample)

Collection Letters

TABLE 2B2

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ³ |
|---------------|---------------------|------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| Total | 4 | |

¹ Enter a "1" for each loan in which the required diligent effort was documented (see definition of diligent effort).

² Enter the total number of loans included in this category.

³ For each loan, enter the number of letters documented not to exceed "2" [e.g. the number of letters required].

⁴Multiply 2 times the number of loans in this category.

**1986 Regulations
61-150 Days Delinquent**

**Telephone Efforts
TABLE 2C1**

| Sampled Loans | COLUMN A (REQUIRED)¹ | COLUMN B (DOCUMENTED)² |
|----------------------|--|--|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | | |

If Unable to Reach Borrower by telephone:

**Collection Letters
TABLE 2C2**

| Sampled Loans | COLUMN A (REQUIRED)¹ | COLUMN B (DOCUMENTED)² |
|----------------------|--|--|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | | |

¹ For each loan, enter the number of diligent efforts (at least "1" for each 30-day period the loan was delinquent from 61-150 days), not to exceed "3" for each loan.

² For each loan, enter the total number of diligent efforts documented (for each 30-day period the loan was delinquent from 61-150 days), not to exceed "1" for each period and not to exceed a total of "3" for each loan.

**1986 Regulations
151-180 Days Delinquent**

**Final Demand Letter
TABLE 2D**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED)¹ |
|----------------------|--------------------------------|--|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | 2 | |

**Skip Tracing Procedures
TABLE 2E**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED)³ |
|----------------------|--------------------------------|--|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | 4 | |

¹ For each loan, enter a "1" if the records document that a Final Demand Letter was sent to the borrower (do not exceed "1" for each loan).

² Enter the number of loans in this category.

³ For each loan, enter a "1" if the required skip tracing procedure was documented (do not exceed "1" for each loan).

⁴ Enter the number of loans where skip tracing procedures should have been performed.

**1986 Regulations
Preclaims Assistance
TABLE 2F**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ₁ |
|---------------|------------------------|--|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | ₂ | |

**1992 REGULATIONS
1-10 Days Delinquent
Collection Letters
TABLE 2G**

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ³ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | ₄ | |

¹ For each loan enter a "1" if the required preclaims assistance was documented (do not exceed "1" for each loan).

² Enter the number of loans where preclaims assistance should have been performed.

³ For each loan enter a "1" if the records document that the required written notice or collection letter was sent to the borrower (do not exceed "1" for each loan).

⁴ Enter the number of loans where required written notices or collection letters should have been sent.

**1992 REGULATIONS
11-180 Days Delinquent (11-240 days)
Telephone Efforts
TABLE 2H1**

| Sampled Loans | 1 Effort Before 90 days | | 1 Effort After 90 days | | Other Efforts | | TOTAL | |
|---------------|-------------------------|-------------|------------------------|-------------|---------------|-------------|-------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | | | | | | | |
| Loan #2 | | | | | | | | |
| Loan #3 | | | | | | | | |
| etc. | | | | | | | | |
| Total | 1 | | 1 | | 2 | | | |

**Collection Letters
TABLE 2H2**

| Sampled Loans | At least 2 letters contain warning | | Other Letters | | Total | |
|---------------|------------------------------------|-------------|---------------|-------------|-------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | | | | | |
| Loan #2 | | | | | | |
| Loan #3 | | | | | | |
| etc. | | | | | | |
| Total | 2 | | 2 | | | |

¹ 1 * (multiplied by) the number of sampled loans in this category.

² 2 * (multiplied by) the number of sampled loans in this category.

1992 Regulations

If lender received loan payment, address correction, dishonored check, borrower's telephone number, or notification of expired forbearance or deferment, only the following is required:

TABLE 2H3

| | |
|---|---|
| Section I Less than 91 (121) ¹ Days Delinquent | Section II 91-120 (121-180) ¹ Days Delinquent |
|---|---|

| Sampled Loans | 2 Diligent Telephone Efforts | | 1 Diligent Telephone Effort | |
|---------------|------------------------------|-------------|-----------------------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | | | |
| Loan #2 | | | | |
| Loan #3 | | | | |
| etc. | | | | |
| Total | ² | | ³ | |

Note: For loans over 91 (121) days delinquent [e.g. Section II], there will usually be corresponding entries for the loan in Section I, however because of dishonored checks and rolling delinquencies, the borrowers status could jump to the more advanced stage (Section II) of delinquency without Section I delinquency applying.

¹ If the payments are made less frequently than monthly

² 2 * (multiplied by) the number of sampled loans in this category.

³ 1 * (multiplied by) the number of sampled loans in this category.

1992 Regulations

Final Demand Letter 151 Days or Greater

TABLE 2I

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | | |

Skip Tracing Procedures

TABLE 2J

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ² |
|---------------|------------------------|---------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | ³ | |

1992 Regulations

¹ For each loan enter a "1" if the records document that a Final Demand Letter was sent to the borrower (do not exceed "1" for each loan).

²For each loan, enter a 1 in Column B if both skip tracing requirements in Step 2 were met. Otherwise, enter a 0.

³ Enter the number of loans where skip tracing procedures should have been performed.

1-180 Days Delinquent

Loan Endorser Due Diligence Requirements

(EXAMPLE TABLE 2K1)

| Sampled Loans | 1 Tel. Effort | | 1 Letter with warning | | 1 addtl ltr | | Final Demand Ltr | | Grand Total | |
|---------------|---------------|-------------|-----------------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|
| | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A(REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) | COL A (REQ) | COL B (DOC) |
| Loan #1 | | | | | | | | | | |
| Loan #2 | | | | | | | | | | |
| Loan #3 | | | | | | | | | | |
| etc. | | | | | | | | | | |
| Total | 1 | | 1 | | 1 | | 1 | | | |

**Skip Tracing Procedures
TABLE 2K2**

| Sampled Loans where Final Demand Letter not sent | Upon lender's receipt of info. that endorser's address or phone # unknown, skip tracing includes at least 1 directory assistance inquiry | |
|--|--|-----------------------|
| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | | 1 |

1992 Regulations

Preclaims Assistance

¹ 1 * (multiplied by) the number of loans sampled in this category.

TABLE 2L

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|---------------|---------------------|------------------------------------|
| Loan #1 | | |
| Loan #2 | | |
| Loan #3 | | |
| etc. | | |
| Total | 2 | |

¹ For each loan enter a "1" if the required preclaims assistance was documented (do not exceed "1" for each loan).

² Enter the number of loans where preclaims assistance should have been performed.

3. TIMELY CLAIM FILINGS WITH GUARANTY AGENCY

TABLE 3

| | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|---|------------------------|------------------------------|
| A. Death, Disability, Bankruptcy Closed School & False Certif. | | |
| B. Default Claims | | |
| Total | | |

Death, Disability, Bankruptcy Close School & False Certification Claims

TABLE 3A

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) ¹ |
|------------------|------------------------|---------------------------------------|
| Loan #1 | | |
| etc. | | |
| Total | ² | |

Default Claims

TABLE 3B

| Sampled Loans | COLUMN A (REQUIRED) | COLUMN B (DOCUMENTED) |
|------------------|------------------------|--------------------------|
| Loan #1 | | |
| Loan #2 | | |
| etc. | | |
| Total | | |

¹ Enter a "1" for each loan in which the records document the required diligent effort was performed (see definition of diligent effort).

² Enter the number of loans included in this category.

